

The control and management of government expenditure

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THE CONTROL AND MANAGEMENT OF GOVERNMENT EXPENDITURE

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In the 1980s, OECD Member governments strengthened their co-operative activity in public management. The objective is to bring together senior representatives from public management agencies and use the comparative framework of the OECD to engage in practice-oriented study and exchange of experience. The work takes place under the auspices of the Technical Co-operation Committee.

This book is based on the work in the area of Financial Management of Government Resources being conducted by the Committee. The information and analysis are based on the contributions of Senior Budget Officials from 19 OECD Member countries, developed by a Project Group under the Chairmanship initially of Dr. Bart le Blanc, as then Director-General of the Budget in the Netherlands, and subsequently of Mr. Karsten Olsen, Under-Secretary of the Department of Budget in Denmark.

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INTRODUCTION

This study examines the public management practices in nineteen OECD countries¹, for the formulation and implementation of central governments' expenditure budgets. The report is concerned with the issues and problems faced by budget offices in developing processes which assist governments in determining an aggregate expenditure level and its composition in accordance with their priorities, and in ensuring the efficacy of the subsequent implementation of those decisions.

The degree of government involvement in the economy has grown substantially in all OECD countries since the beginning of the 1960s. One indication is the size of general government expenditure, which, expressed as a percentage of GDP, now averages almost 50 per cent for the countries in this study, compared with 29 per cent in 1965. This rapid growth, combined with the economic difficulties of the 1970s, has given rise to an increased level of interest in the affairs of the public sector.

Economic policy in most OECD countries has emphasized, over the past few years, and longer in some cases, firm restraint on total expenditure growth. There is also an increasing emphasis on structural adjustment policies to improve economic performance, in part through increasing the effectiveness and quality of government spending and enhancing the flexibility and responsiveness of the public sector².

The effectiveness of expenditure policy and resource allocation decisions is affected by the practices and tools employed in budget formulation and implementation. This report focusses on the main developments and changes in those practices and tools, from the point of view of central government "budget offices"³. The basis for the paper has been exchanges amongst officials working in central budget offices of Member countries.

The report concentrates on budgetary practices from three main perspectives: limiting total expenditure, monitoring and controlling spending during the implementation phase of budgeting, and increasing the efficiency and effectiveness of expenditures – the search for better value for money. The report does not address in detail any individual programme or programme allocation, nor is it concerned with expenditure or fiscal policies per se.

At the outset of the study, it was apparent that the terminology used varied from country to country. The meaning adopted in this report for one particular term

warrants special attention. The word "control" frequently is used to describe many quite different aspects of budgeting and related activities. "Control", in the report, is taken to mean the ability to allocate expenditures according to government priorities and to adhere to planned expenditure levels, rather than in the narrower, legal sense of respect for authorisations or detailed financial and cash management regulations concerned with the proper disbursement of public funds.

The report is in two parts. Part I contains an overview and discussion of selected budgeting topics with country illustrations and comparisons. Part II contains 19 individual country chapters, providing a description of the institutional framework and budgeting practices of each country.

Structure of Part I

Despite differences between countries' political and bureaucratic environments and arrangements, there is a high degree of commonality in the problems which face budgeting in the broad range of countries studied. Economic, social and institutional differences between countries preclude the prescription of a single best budgeting system, or blueprint of best practices to be adopted by all countries. The report is intended to help individual countries reflect on their own practices in the light of the issues discussed and of other countries' experiences. Some conclusions of a general nature can, however, be drawn and are outlined in Chapter 1.

Chapter 2 considers the relationship of the central government budget with other entities or activities which may lie outside the budget's accounting scope – regional and local governments, social security funds, public enterprises, loans and loan guarantees and tax expenditures.

Chapter 3 describes changes in the size and composition of expenditure in the last two decades and the evolution of government deficits over this period. It considers particular features of programmes which contribute to some inflexibility of expenditure and the consequences for budgeting.

Chapter 4 describes various forms of aggregate fiscal, tax and expenditure policy targets, and reviews the particular objectives operative in each country in recent years.

Chapter 5 deals with the relationship between these aggregate targets and the annual budget, describes the

use of multi-year expenditure plans and reviews selected aspects of the annual budget formulation cycle.

Chapter 6 shifts the focus of the report, and reviews developments in instruments of expenditure control designed to improve the ability of governments to contain expenditure in line with overall budgetary targets.

Chapter 7 offers a brief description of expenditure management practices intended to promote effectiveness, economy and efficiency in the management of spending programmes.

Structure of Part II

Each country chapter of Part II is developed around the structure elaborated in the succeeding paragraphs.

Section A, *Institutional Structure of Budget Decision-making*, describes briefly some elements of the political environment of the budgetary system, and the main institutions involved in budget decisionmaking. Main tasks, legal responsibilities and concerns, and organisational structure are highlighted.

Section B, *Some Facts and Figures of Government Finances*, provides some quantitative information on the public sector. The financial structure of the total public sector, in terms of economic categories of spending and financial flows between different levels of government and the private sector, is summarised in two tables referring to 1984 (or latest year available) and 1974.

In addition this section of the country chapters briefly discusses a number of diverse aspects of the public sector and the central government's budget: roles and responsibilities of other levels of government; the relation of the central government's budget and publicly owned enterprises; existence of a separate capital budget; etc. Finally, some summary data is provided regarding the functional distribution of expenditure.

Section C, *Strategic Aims and Global Norms*, is concerned with the medium-term aggregate fiscal, tax and expenditure policy targets formulated by the central government. The section describes the nature and precise definition of each country's high level targets and particular objectives operative in 1986.

Section D, *Formulation of the Budget*, is centered around a calendar of key budgetary events and activities. Technical aspects of multi-year projections or plans, if used in a given country, are described in order to facilitate the description of the interaction of multi-year and annual budget activities. Then a "budgeting calendar" is provided; beginning with the preparation of the first main decision, budgetary activities and main decision points are chronologically dealt with.

Section E, *Efficiency and Effectiveness Reviews*, discusses the use of systematic, or more selective and periodic, reviews of policies and programmes and the means whereby results are fed into the budget process.

Section F, *Implementation of the Budget*, is largely concerned with describing practices for the in-year management of the budget. It highlights the use of reserves, supplementary adjustments, cash limits and also reviews the extent of flexibility given to individual Ministries, for example: authority to shift expenditure to line items or even to purposes other than those originally funded; permitting unexpended balances to be carried forward to future fiscal years; entering into longer-term budget commitments, etc.

Section G, *Current Reforms*, highlights budgeting reforms that have been set in train (but not yet finished), or that are even in an earlier stage of development.

Section H, *Further Information*, offers a bibliography of budget documents wherein further information is available, indicating whether the documents, or a summary, are available in English or French. In addition, this section indicates a point of contact within the budget office of the country concerned.

Part I

COMPARING COUNTRY EXPERIENCES

Chapter 1

SUMMARY

The word "budget" conjures up images in many people's minds of thick documents crammed with obscure jargon and thousands of numbers and of debates over accounting conventions and performance indicators. These are manifestations of budgets, of course. But this is not what budgeting is all about; it is about the interplay of people and their ideas and goals.

Budgets are statements of the limits and allocation of financial resources which governments will use in providing assistance and services to improve the social and economic well-being of people. Budgets are the result of a compromise amongst alternative views of the desirable size and composition of government activities. Budgeting is a reconciliation process whereby people – Ministers, members of the legislature, public servants and others – engage in a debate on the relative merits of these various views and arrive at the allocation of resources. Budgeting is also a process which governs the behaviour of public servants in actually managing and delivering assistance and services to the public, and in the subsequent accounting for public monies used and results achieved.

This report offers a glimpse of the world of budgeting as seen through the eyes of senior public servants in the central budget offices of 19 OECD Member countries. The report does not offer rigorous assessments or prescriptions of "best" practices. The focus is on a description and comparison of some budgeting practices which form part of the "tools of the trade" for these officials. International comparisons are often fraught with difficulties in assessing relative performance. These difficulties are particularly acute when comparing "rules of the game" intended to influence the behaviour of individuals and the outcome of their interaction in diverse social, economic, political and administrative environments.

The Budgeting Environment

Budgets, as instruments of economic and social policy, are of course affected by and intended to affect economic conditions. Similarly, budgeting practices are influenced by and designed to influence the decision-making environment.

During the 1950s and 1960s and to some extent into the mid-to-late 1970s, the size and role of the public

sector expanded substantially; the combined expenditures of all levels of government almost doubled on average as a share of Gross Domestic Product in OECD countries. Economic performance was strong, and government expenditure policies could generally be characterised as activist, interventionist and expansionary. Budgeting was often focused on choosing amongst a variety of ideas for increased spending on new programmes or enhanced services. This period saw the increased role of governments in the direct redistribution of incomes, and the development of collective responsibility of the welfare state for the costs of individual financial risks associated with economic fluctuations, old age, and illness.

Following the mid-1970s governments increasingly became net borrowers. By 1982, the combined government sectors of virtually all the countries participating in this study were in a deficit position. Concerns began to emerge over the consequences of the escalating debt burden; the large and steadily rising share of debt interest costs in total spending was crowding out other spending options and limiting government flexibility. Economic policy prescriptions began to emphasize the need not only for deficit restraint or reduction but also for a stable fiscal environment encouraging private sector growth. Some governments began to question the merits, let alone the cost, of a large public sector.

Spending restraint continues to be a central element in economic policy, as indicated by the following excerpts from the conclusions of the April 1986 meeting of the OECD Council at Ministerial level:

"The control of public expenditures and budget deficits is essential to establish a stable domestic financial environment and to promote a durable reduction in real interest rates which will help private investment to expand and thus promote sustained growth worldwide. In countries where deficits are large and public debt is rising strongly – and this is still the case in most OECD countries – further deficit reduction cannot be postponed. Deficit reductions should be pursued in ways consistent with the objective of improving growth. Such reductions are best achieved through stronger control over public expenditure, rather than by raising taxation which would damage incentives. Where the trend of rising public debt in relation to GNP is being reversed, and budget deficits have been reduced sufficiently to restore fiscal

flexibility, further deficit reductions may be less urgent. In this case, continued progress in containing public expenditure creates room for tax cuts."

"In addition to appropriate control of budget deficits and the overall scale of government spending, budget policy must also be directed to improving the efficacy and efficiency of government programmes. This implies flexible reallocation of resources to priority needs."

Budgeting Strategies

Governments, and particularly Budget Ministers and their officials, have of course always been concerned with the allocation of (somewhat) scarce resources, promotion of economy and efficiency, and elimination of waste and fraud in the management of public monies. What has transpired since the mid-1970s, however, is a more widespread acceptance, albeit not universal, of the need to clearly recognise and control the financial implications of all public sector activities. This changing attitude led to reassessment and reform of budget processes, and a closer integration of taxation and expenditure policy formulation.

The resulting budgeting practices described in this report are designed to respond to this budgeting environment, and to influence the formulation and implementation of budgets. These practices can be grouped under three main strategies:

- Imposing, in the early stages of budget formulation, "top-down" limits whereby the government sets a goal for total spending within which subsequent reallocations and detailed decisions about programme changes, cost increases, etc. should be accommodated;
- Ensuring that spending outcomes adhere to plans and that unanticipated developments do not force an undesired overrun of the spending limits;
- Increasing value for money, always desirable in its own right, but essential in a period of restrained or shrinking overall resource limits.

"Top-Down" Budgeting

The central review and assessment of the requests for funds presented by individual Ministries and departments remains the key annual task of budget offices in providing advice to Budget Ministers and Cabinets. However, over the last decade "top-down" financial limits have been gradually imposed on these "bottom-up" demands of individual Ministers.

Virtually all countries taking part in this study now formulate and stress publicly some form of high-level target which sets a limit on total spending. In virtually all countries, these targets are specific quantitative goals usually covering a specified time period. They are intended to condition behaviour and constrain demands

for more resources. They can make for more readiness to accept restrictions on spending, and help to reduce the tensions in budget negotiations.

Time is required to permit the formulation and resolution of the choices between alternate objectives and needs for public funds. In keeping with this, and the need to define limits within which individual spending needs must be accommodated, the regular cycle for formulation of sectoral or departmental budgets begins a year or more before the fiscal year begins. This long lead time may increase the uncertainty of cost estimates. But it is necessary particularly when governments seek to integrate, into the annual budget process, all decisions on new policies with financial implications.

In part because of the rigidity of some elements of budgets and the sometimes long lead times required to effect change, most countries develop multi-year projections of the financial consequences of some, if not all, expenditure programmes or investment plans. A few countries develop detailed, annually updated, multi-year expenditure and financial plans, providing targets for the preparation of future years' departmental or programme budgets. Some form of multi-year perspective is now clearly recognised by governments as an essential element of budgeting and effective expenditure control.

A few countries now formulate, early in the budgeting cycle, an overall limit or block budget not just for total spending but for individual departments or spending groups as well. This extension of targeting and top-down practices is complemented by a stricter, decentralised responsibility for adhering to agreed financial limits, and by measures to increase the flexibility available to individual units or managers, as noted below. These block budgets, which in some countries are focused on administrative or operating expenses, often reflect top-down targets designed to force productivity gains.

Adherence to Financial Limits

Budgets are not rigid expenditure plans to be blindly implemented regardless of developments in economic conditions or other changes in circumstances between the time they are formulated and the end of the fiscal year in question. All countries allow for supplementary budgets to be brought to the legislatures. In some countries, expenditure changes can, in certain circumstances, be authorised by the government without prior reference to the legislature. All countries reserve the right to change their overall plans and "top-down" spending limits should they judge such changes to be desirable. However, budgeting practice in most countries increasingly emphasizes the need to manage within previously approved spending limits to the greatest feasible extent.

Countries have adopted a variety of practices to ensure that the government's targets for aggregate spending are respected during the implementation phase of budgeting, when monies are disbursed and services

delivered. Some countries rely on an unallocated reserve, within the global expenditure limit, to provide a contingency to deal with unexpected expenditure requirements. Most countries do not have such general reserves, in part because of concerns that their existence encourages spending departments to transfer their financing problems to the budget office rather than finding solutions themselves.

If there is to be confidence in the usefulness of a general contingency reserve, it has to remain at a credible size. Even countries with such reserves have tended to reduce the size of contingency provided and to ration access to it more strictly. Increasingly, budgets set in advance of the operating year are strict limits, with a presumption that they will not be adjusted for unexpected needs. In some countries, cash limits are imposed, which means that individual departments also have to cope with wage rate and inflation changes; other countries, however, maintain central provisions for such adjustments. In both cases, the emphasis is on making individual spending units or Ministries find offsets as required and, in some cases, adjust policies and priorities if necessary.

Most countries have information systems that enable the budget office, and frequently the legislature, to monitor the actual flow of spending or use of budget authority throughout the year. In many countries, the budget office actually controls the pace at which authority or funds are released over the year. This control is intended to provide maximum short-term spending flexibility at the centre of government and to enable very tight commitment, cash and debt management practices.

Such detailed control does, however, reinforce the attitude that the budget office, rather than spending departments, bears primary responsibility for ensuring that budgets are adhered to and that offsets are identified and implemented if required. Central control is further extended in some countries by separate limits or requirements for pre-authorisation at the commitment stage of spending. Again, such constraints are imposed to control the extent to which the government is committed to cash outlays in future years.

The philosophy of expenditure management implied by these centralised controls is in contrast to some of the recent moves towards block budgets. The extent and nature of central controls, and the information and monitoring needs of the budget office, are also being changed by initiatives in some countries to increase the accountability and authority of Ministers and individual programme managers, in order to achieve continuing spending restraint and increased value for money.

Value for money

All countries seek to promote economy, efficiency and effectiveness in their programmes. In some countries, a common tactic is simply reducing the budget each year to reflect expected improvements, as noted earlier. Some

countries rely on various review mechanisms – external groups of experts, reviews conducted with direct private sector involvement, value for money assessments by the government's external auditor, etc. – to ensure that an assessment is made, and options defined for increasing efficiency or eliminating or reshaping ineffective or low priority programmes.

These review procedures are seldom closely integrated with the timetable and decision points in the budget formulation cycle. Budget offices do, however, strive to be aware of such studies and to use the findings in the course of budget negotiations as appropriate. Reviews tend to be carefully targeted on potential problem areas.

A further development in practices in some countries arises from a concern to relieve some of the strain imposed on decision-makers by continuing expenditure restraint, to focus attention more on outputs or results, and to increase the incentives for programme managers and Ministers to achieve savings and live within increasingly limited budgets. For example, some countries are delegating much more authority to departments to shift resources between various inputs to programmes – salaries, capital, travel, consultants etc. In some countries, arrangements have been developed which break with the tradition of annuality in budgets; to promote effective use of public monies and encourage responsiveness and innovation, departments are allowed under certain conditions to carry unused funds forward to future years. In other cases, multi-year agreements on resource levels are being implemented, rather than the traditional annual review and determination of all individual budgets. In addition, some practices allow individual Ministers much greater independent authority to adjust priorities and rearrange the mix of policies and programmes delivered.

Efforts are being made in a number of countries to enable more decentralised expenditure management by upgrading management skills, and ensuring a clearer statement of the goals and objectives of individual managers. One of the key concerns in many countries is the development of adequate performance measures, and of effective accounting and reporting systems for monitoring spending and results. Budget officials seek effective means to allow increased flexibility and freedom of choice for individual departments and managers, within the framework of the collective priorities of government, while ensuring that the desired level of overall expenditure control is maintained and that sufficient knowledge is available at the centre of government to provide informed and effective budget advice to Ministers and the Cabinet.

In Conclusion

Budgeting is about the management of ideas and people. It is not simply a matter of rationality, dispassion, logic and analysis. The determination and implementation of government budgets is often conducted in

an environment of tight deadlines, competing or indeed conflicting objectives, scarce resources, and tense negotiations within a political milieu. Recent innovations in budget practices in some countries are an attempt to moderate or redirect some of these pressures while sustaining or reinforcing goals of restraint, optimal allocation amongst competing demands and value for money.

Obviously there is a wide diversity of environments and issues shaping the consideration of budget policies in the countries surveyed. There is, similarly, a variety of budgeting practices reflecting and attempting to influence the differing public management environments. In many countries, while budgeting practices evolve, they continue to stress the traditional requirements: comprehensiveness, annuality, centralised control and collective accountability.

Budgeting is not a static art. Budget officials are concerned to ensure that practices are effective in assisting governments to meet their public policy and expenditure goals. There is a continuing need to assess and adapt procedures and "rules of the game" to changing circumstances and decision-making environments. Adaptation and reform of budgeting systems is usually partial and evolutionary in nature, although the selective changes can be quite radical. International exchange of information and experiences amongst budget officials can help to inform and improve this on-going process in individual countries. The intent of the information in this report is to illustrate the richness of current budgeting practices, as well as note themes common across countries and highlight emerging issues meriting further attention in the future.

THE SCOPE OF CENTRAL GOVERNMENT BUDGETS

A. INTRODUCTION

This report deals with budgeting practices, problems and possible solutions from the point of view of practitioners in the central government office or ministry responsible for the overall control of expenditure. What is included in central government spending varies to some extent from country to country, but the main issues of control and management of spending are much the same.

In all countries the services directly provided by central government include defence, external relations, most tax collection administration and planning and administrative support services. However, the extent of central government involvement in the direct provision of other services – such as health, education, social security, law and order, transportation or support to industry and agriculture – varies greatly among the countries surveyed. Thus, all central government budgets include substantial funding to state or local authorities, and many also include funding to separate social security funds and to public enterprises.

This report does not examine the specific ways in which central governments try to control or influence the local government or public enterprise or social security authorities, nor does it examine the budgeting practices of these authorities themselves. This exclusion from this particular report should not be taken as a measure of the importance of such issues. The social security funds, public enterprises and local authorities account for a very large proportion of public sector activity and raise some very significant issues concerning expenditure control practices, meriting further attention.

Section B discusses relations with state and local authorities, Section C notes the variation amongst countries in the financing and administration of social security payments, and Section D touches on relations with public enterprises.

Finally the chapter comments on three financial instruments – loans, loan guarantees and tax expenditures. The latter two are often only partially, if at all, integrated with the processes for controlling expenditure.

B. THE TIERS OF GOVERNMENT

Four countries in the study (*Australia, Canada, Germany and the United States*) have a federal structure. In these cases the focus of this report is on the federal government. The other participating countries are unitary states. The importance of regional, as distinct from local, authorities varies and is changing. In some, notably *France, Italy and Spain* there has been 'regionalisation' or 'decentralisation' of some hitherto central government functions.

In comparing countries, there is no common or simple division of functions and responsibilities between the tiers of government, and this gives rise to a variety of financial relationships with the central governments. In some cases, lower tiers may act merely as an agent of the central or federal authority, which not only controls funding but also closely directs or regulates the activities and services provided by lower authorities. In some instances, central government may offer grants limited to a specific purpose, to cover part or all of the costs of a service, in order to influence what the local tier does while permitting some local discretion. Sometimes a general (block) grant may be provided, with or without indications of how central government would like it to be spent, or some centrally-levied tax revenues may be shared in pre-determined proportions, with or without guidance on the use of these revenues by the regional or local authorities.

The degree of autonomy of other levels of government differs considerably. The proportion of general grants,

as distinct from grants tied to specific activities, is one indication. Other indications are the extent to which lower tiers can levy their own taxes, charge for their services and determine their own borrowing requirements. Local taxes on dwellings (and some other real estate), sales or income are significant sources of local revenue in countries in the study.

C. SOCIAL SECURITY

Social security is usually defined to include state pension schemes, unemployment compensation and other income maintenance programmes and social assistance grants. Its prominence in public expenditure is described in Chapter 3. Social security programmes are often in the form of entitlements and can be characterised as demand-led. The unemployed, sick, and pensioners, for example, are entitled to certain benefits or grants, as determined in each case by the specific rules in governing legislation or regulations, irrespective of the "state of the budget". While the parameters of the programme can be changed, once they have been set the overall social security spending levels are determined by demand. In general, control on total expenditure in these areas can only be exercised by changing the underlying regulations or legislation.

Institutional arrangements differ markedly between countries. In some (e.g. *Australia* and *Denmark*) all or most payments are made from the consolidated pool of revenues and appropriation is sought from Parliament. In others, some benefits are paid from a separate public fund financed wholly or mainly by specific ear-marked contributions. Such a fund may also receive a grant from the central government, and income from an accumulated surplus. The extent of government involvement in such funds varies. The *German* Social Insurance Pension Fund, financed largely from compulsory premiums, receives an indexed annual grant from the Federal budget. In the *United Kingdom*, the National Insurance Fund, covering the main state pension scheme and short-term unemployment benefit, is administered by the central government and its transactions are included gross in the central government budget. In some countries benefits may be paid from special funds but the central government may have to intervene if the fund gets into difficulty (for example, if unemployment rises suddenly), or may contribute towards the costs of certain elements of the fund, as is the case in *Germany* as regards unemployment insurance.

In some countries, lower tiers of government administer social assistance grants on behalf of central government. In the *Netherlands*, each authority normally has some discretion in the detailed rules for eligibility and rates of grant that it applies, and are thus

expected to provide some of the financing required, with the balance coming from the central government.

Whatever the institutional arrangements, a central government is usually involved in determining rates of benefit and contributions and the terms of eligibility for social security funds, and is also likely to provide other direct social assistance payments.

Contributions to social insurance funds are generally integrated into assessments of taxable capacity and tax burdens, even in countries where such contributions are regarded as significantly different in nature from taxation. In the *Netherlands*, the key concept of the 'collective burden', in which one of the fiscal targets is expressed, includes the sum of tax and social premium payments (and some other non-tax revenues). In *Germany*, one strategic budgetary goal is reducing the "Abgabenquote" which is the combined impact of taxes as well as pension contributions, health and unemployment premiums paid by employers and employees.

D. PUBLIC ENTERPRISES

The definition of the borderline which separates public from private enterprises is not straightforward nor easily formulated. The degree of direct public control of activities and the extent of a firm's reliance on public financing are both important elements in defining the borderline. Within the framework of the internationally-agreed standard national accounts, each country has developed its own attributions.

In *Australia*, *Germany* and the *United States* the central government tends to be involved with relatively few public enterprises, generally confined to such public infrastructure activities as communications and postal services and transportation. Links between central government and public enterprises are more common in unitary states, and the government may exercise its influence in various ways. In budgetary terms, government expenditure includes any grants or subsidies paid to such enterprises. It normally also includes any loans (net of repayments), although such loans are sometimes made from an investment fund distinct from the government's general budget.

In the *United Kingdom*, the operational definition of public sector expenditure for control purposes includes all net external finance of the nationalised industries and most other public corporations. Most such financing is from the government but some may be raised directly from banks or overseas, in which case only the grants and loans made by the government are included in the central government's budget. In *Ireland* the operational definition of public capital expenditure includes capital spending by State-sponsored bodies financed from the Exchequer, the company's internal resources and from

non-Exchequer external sources (e.g. borrowings from capital markets).

E. OTHER FINANCIAL INSTRUMENTS

Loans

Loans made to others by central government, to implement its policies, are normally accounted for in the budget, and included in any overall expenditure target. In some countries there are additional specific targets and controls on such loans by all levels of government. Generally, loans have to compete with other, non-repayable, expenditure in the decision-making process.

To some extent, the decision to lend may be handled in a separate forum or presented separately to the legislature. For example, *Japan* budgets for loans in the Fiscal Investment and Loan Programme which is prepared and reviewed in parallel with the general budget. The *United States* has a credit budget that includes direct federal loans and loan guarantees, although it does not include transactions of Government-sponsored credit agencies because they are privately owned. This credit budget is developed in parallel with the regular budget, which also includes the direct loans. In the *United Kingdom*, lending from the National Loans Fund is included in the central government budget.

Loan Guarantees

Since cash payments by government are required only if the borrower defaults, the general practice is not to include loan guarantees in expenditure plans or budget requests. However, many governments in the study have expanded the information made available to Parliament and the public about such guarantees. The *United States* includes guarantees in the above-noted credit budget. In the *Netherlands*, some provision for anticipated defaults on loan guarantees has been included in the target for the budget deficit and the Government aims to end guarantees that are obviously a substitute for direct government action, especially in the housing sector. In *Canada*, reference to loan guarantees must be specifically included in the budget spending estimates in order to obtain Parliamentary authority for the guarantee, however the expenditure levels would only include cash payments resulting from a default. In *Germany*, the financial plan and the budget approved by the legisla-

ture include provision for the expected cash requirements arising from defaults on guarantees. In *Sweden*, the government proposes limits for the use of each loan guarantee programme and these limits are decided upon by Parliament. In a special section of the Budget, all changes in loan guarantee limits and cash payments are reported yearly to Parliament. In the Budget, realistic assessments of expected cash payments during the fiscal year are included.

Tax Expenditures

Tax expenditures¹ are defined as a departure from some generally accepted benchmark of the tax structure. They can be thought of as assistance or subsidies given through the tax system. While the budget financial statements (i.e. revenues) obviously reflect the impact of such subsidies, the general practice is that the determination of tax expenditures is not included in the regular process of making expenditure decisions. Tax and direct expenditures are treated relatively separately. Nevertheless, countries have put some efforts into integrating tax expenditure analyses more fully with the budgeting cycle or, at least, improving related information presented to the legislature and public.

In *France*, *Spain* and the *United States*, consolidated tax expenditure statements are now required by law and are presented to the legislature, although these statements are not voted on nor approved explicitly as such. In *Canada*, the government has undertaken to report on the estimated value of tax expenditures on a regular basis. Decisions regarding adjustments to tax expenditures can be traded off against new spending initiatives; that is they compete with direct spending at the discretion of the Minister of Finance. *Australia*, *Germany*, and the *United Kingdom* also provide regular estimates of tax expenditures for information to the legislature. Some examples of tax expenditure statements are included in the OECD publication "Tax Expenditures: A Review of the Issues and Country Practices".

Several factors – including the difficulties in determining which elements of taxation legislation are tax expenditures and which are part of the benchmark tax structure, the extent to which tax authorities wish to retain sole control of in taxation policy and the technical difficulties in costing – tend to reinforce the exclusion of tax expenditures from the regular expenditure decision-making process. However, tax relief is a means of resource allocation and may be considered to compete against other financial instruments of government policy.

THE GROWTH AND COMPOSITION OF EXPENDITURE

A. INTRODUCTION

Over the past two decades, general government expenditure (i.e. spending by central, regional and local governments and social insurance funds combined), expressed as a percentage of Gross Domestic Product (GDP), has on average increased by 21 percentage points to 50 per cent; that is, expenditures have grown on average about 2.9 per cent per year faster than the value of economic output. Over this period there has been marked change in the composition of public expenditure, with a growing share taken by interest payments on rising public debt and by transfer payments to households and the business sector.

These changes testify to the significant increase in the role of the public sector and, in particular, governments' greater role in the redistribution of income and the collective welfare state responsibility for the financial risks associated with economic perturbations, old age and sickness.

The following sections of this chapter offer a very brief overview of the changing economic and fiscal context and the variations, amongst countries and over time, in the nature of public expenditure¹. As noted, the object of this report is to review budgeting practices and processes, not to focus on nor assess expenditure or fiscal policies. Thus, intent of this Chapter is simply to provide a rough sketch of the environment in which emerged a growing concern over practices to ensure the effective control of government budgets.

B. THE ECONOMIC CONTE

As very general background, Table 1 provides a summary of three indicators of economic performance – the rate of real output growth, consumer price inflation and growth in employment. The data distinguishes between the period before and after the first oil crisis in 1973.

The dramatic decline in these performance measures in the latter period is apparent – economic growth was cut in half, inflation more than doubled and employment growth was slower in most countries.

Table 1. Economic Indicators
Average annual percentage growth¹

	Economic Output		Consumer Prices		Employment	
	1960-1973	1975-1982	1960-1973	1975-1982	1961-1973	1974-1982
Australia	5.3	2.2	4.2	10.1	2.8	1.2
Belgium	5.0	2.1	3.7	6.5	0.8	-0.4
Canada	5.6	2.3	2.9	9.5	2.9	2.2
Denmark	4.4	2.4	6.5	10.2	1.3	-0.2
Finland	4.9	2.9	5.9	10.2	0.2	1.0
France	5.6	2.6	4.7	10.7	0.7	0.2
Germany	4.4	2.3	3.5	4.5	0.1	-0.5
Greece (1963-82)	6.8	2.6	4.2	18.5	-0.6	1.0
Ireland	4.4	3.5	6.0	15.3	0.1	0.8
Italy	5.3	2.7	4.8	17.2	-0.6	0.7
Japan	9.9	4.7	6.1	5.5	1.3	0.8
Netherlands	5.0	1.5	5.2	6.1	0.8	0.7
Norway	4.3	3.4	4.9	9.3	1.1	1.8
Portugal	6.9	4.4	3.4	21.7	0.2	1.6
Spain	7.2	1.6	6.7	17.3	0.9	-1.5
Sweden	4.2	0.9	4.6	10.8	0.5	0.9
Turkey	5.7	3.8	8.8	46.9	0.9	1.1
United Kingdom	3.1	1.2	4.8	12.6	0.2	-0.5
United States	4.1	2.5	3.1	7.5	2.1	1.7
Mean (Unweighted)	5.4	2.7	4.9	13.2	0.8	0.7

1. Annual averages are calculated as mean compound growth rates.

Source: *The Role of the Public Sector*, OECD 1985 (Table 19) and *OECD Employment Statistics*.

C. AGGREGATE REVENUE AND EXPENDITURE TRENDS

Table 2 illustrates the evolution over the past 20 years in general government expenditure, revenue and net lending, expressed as percentages of GDP. In 1965, the simple unweighted average expenditure percentage for the countries was 29 per cent and by 1984 it had reached 50 per cent – an increase of 21 points. The significant jump in expenditure relative to GDP in the two year period 1973-1975 illustrates, of course, the combined impact of a sharp deterioration in economic performance and the consequent upward push on government spending following the first oil shock. Over the past 20 years, the revenue share also increased, but not nearly as sharply as spending: the average revenue share

Table 2. Aggregate Budgetary Trends
Percentage of GDP

Year	Total Revenue	Total Outlays	Net Lending
1965	28.8	29.1	0.2
1966	29.6	29.6	0.4
1967	30.7	30.9	0.4
1968	32.1	31.9	0.5
1969	32.9	32.1	1.1
1970	33.5	33.0	1.0
1971	34.4	34.1	0.9
1972	34.3	34.3	0.6
1973	35.0	34.7	1.0
1974	36.0	36.9	-0.3
1975	36.6	40.2	-3.0
1976	37.9	40.7	-2.1
1977	38.6	41.4	-2.1
1978	38.5	42.3	-3.2
1979	38.9	42.6	-3.0
1980	40.0	43.2	-2.3
1981	40.9	46.3	-4.1
1982	42.1	48.2	-4.9
1983	43.3	49.4	-4.8
1984	44.8	49.5	-4.3

Source: OECD National Accounts; unweighted mean of all countries in this study when data available

rose from 29 per cent in 1965 to 45 per cent by 1984 – an increase of 16 points.

As shown in Table 3, there is substantial variation between countries in the size of general government expenditure relative to GDP, ranging from about 33 per cent in Japan to about 64 per cent in Sweden in 1984. However, all countries experienced significant, and in some cases quite dramatic, increases in these per-

Table 3. General Government Total Expenditure
Percentage of GDP

	1965	1970	1975	1980	1984
Australia	25.2	25.5	32.2	32.8	37.4
Belgium	32.3	36.5	44.5	51.0	55.4
Canada	29.1	34.9	40.0	40.4	46.8
Denmark	29.9	40.2	48.2	56.2	60.9
Finland	30.8	30.5	36.1	36.5	39.9
France	38.4	38.9	43.5	46.4	52.7
Germany	36.6	38.6	48.9	48.3	48.0
Greece	20.6	22.4	26.7	30.5	40.2
Ireland	33.1	38.6	46.5	50.9	56.3 ¹
Italy	34.3	34.2	43.2	46.1	57.4
Japan	18.8	19.4	27.3	32.1	33.1
Netherlands	n.a.	46.0	52.8	57.5	61.2
Norway	34.2	41.0	48.4	50.7	48.8
Portugal	20.1	21.6	30.3	25.9	n.a.
Spain	19.6	22.2	24.7	32.3	n.a.
Sweden	36.1	43.7	48.9	61.6	63.5
Turkey	20.6	21.9	n.a.	n.a.	n.a.
United Kingdom	36.1	39.8	46.3	45.1	47.8
United States	27.4	31.7	34.6	33.9	37.2 ¹
Mean (unweighted)	29.1	33.0	40.2	43.2	49.5

1. 1983

Source: OECD National Accounts

tages over the past 20 years, including the sharp rise in 1975. In the period since 1975, there are marked differences amongst countries in the evolution of these ratios, reflecting more varied economic performance and the fiscal and expenditure policy responses of governments.

Trends in general government financial balances are shown in Table 4. It was following the mid-1970s that governments more and more became net borrowers. In 1960, only Canada, Ireland, Italy and the United Kingdom were in deficit positions. By 1982, 14 countries were in a deficit position, ranging from 0.4 per cent of GDP in Finland to 13.2 per cent in Ireland.

Table 4. Trends in General Government Financial Balances¹
Percentage of GDP

	Average 1965-1969	Average 1970-1974	Average 1975-1979	Average 1980-1984
Australia	1.4	0.7	-2.3	-2.2
Belgium	n.a.	n.a.	n.a.	n.a.
Canada	0.9	0.8	-2.2	-4.2
Denmark	1.4	3.6	-9.9	-6.1
Finland	2.3	4.6	2.5	0.0
France	0.3	0.8	-1.2	-2.1
Germany	-0.4	-0.1	-3.3	-2.9
Greece	n.a.	n.a.	n.a.	n.a.
Ireland (1965-83)	-3.6	-4.4	-8.7	-12.0
Italy	-3.1	-6.0	-9.6	-11.4
Japan	1.4	0.9	-4.1	-3.5
Netherlands	n.a.	-0.2	-2.8	-5.9
Norway	4.0	4.5	1.0	4.5
Portugal (1965-81)	0.6	1.1	-6.1	-2.0
Spain (1965-82)	0.4	0.3	-0.9	-3.5
Sweden	4.0	4.0	1.1	-4.4
Turkey (1965-72)	0.3	3.0	n.a.	n.a.
United Kingdom	-0.8	-1.0	-4.1	-3.6
United States (1965-83)	-0.5	-0.8	-1.5	-2.8
Mean (unweighted)	0.5	0.6	-2.7	-3.9

1. Net lending. OECD National Accounts. A negative sign on net lending indicates net borrowing or a financial deficit.

D. THE CHANGING COMPOSITION OF TOTAL EXPENDITURE

In 1960, consumption expenditure – a measure of government direct provision of goods and services – accounted for about 45 per cent of total government expenditure, on average, while transfer payments and investment accounted for 40 and 15 per cent respectively. By 1982, transfer payments represented over half of general government expenditure – 52 per cent – while consumption and investment shares had fallen to 40 and 8 per cent respectively.

Based on data developed for a recent OECD study², Table 5 summarizes the changes in the 1970s in various categories of general government expenditure as a

Table 5. Changes in the Structure of General Government Expenditure, 1970 to 1981
Changes in the Percent of GDP represented by a given item

	Public Goods	Merit Goods	Income Maintenance	Economic Services	Public Debt Interest	Balancing Item	Total Expenditure
Australia	0.2	3.4	3.6	-0.7	0.9	1.0	8.4
Denmark	1.1	1.7	5.6	-0.7	3.9	4.9	16.5
France	0.3	0.6	4.3	0.0	0.9	-0.4	5.7
Germany	-0.4	4.3	4.1	-0.3	1.2	1.7	10.6
Italy	1.2	3.6	5.2	1.7	5.4	-0.1	17.0
Japan	0.9	4.5	4.5	1.1	3.0	1.1	15.1
United Kingdom	-1.2	0.8	1.8	-1.6	0.6	3.5	4.1
United States	-2.7	1.5	1.5	-0.7	0.4	0.5	0.5
Mean (unweighted)	-0.1	2.6	3.8	-0.2	2.0	1.5	9.7

Source: *The Role of the Public Sector, OECD, 1983*

percentage of GDP, for eight of the countries participating in this report. Expenditures in five major categories are distinguished:

1. Public goods – defence and general government administrative services;
2. Merit goods – education, health, housing and community services;
3. Income maintenance – e.g. pensions, family allowances, unemployment compensation;
4. Economic services – e.g. capital transactions and subsidies;
5. Interest on the public debt.

Expenditure on defence and administrative services has been relatively stable in Australia, France and Germany, increased in Denmark, Italy and Japan but dropped off in the United Kingdom and United States. All countries experienced a rise in merit goods expenditures relative to GDP, the largest increases coming in Japan, Germany, Italy and Australia, in which this spending category had the relatively lowest shares in 1970. In virtually every country, income maintenance expenditures have risen more than any other element – much of this due to growth in expenditure on pensions. The unemployment compensation share also rose rapidly in Australia, Denmark and Germany, considerably less in Japan and the United Kingdom, while in the United States it remained constant.

Concomitant with their rising share of government expenditures, transfer payments increased considerably in importance in family incomes, rising from an average of 9.8 per cent of gross household receipts in 1960 to 15.3 per cent by 1980¹.

The growth in transfer payments, or social benefits is not simply due to economic and demographic trends over this period. Recipients have enjoyed real improvements in their benefits. A recent OECD report⁴ estimates that between 1960 and 1975, average real benefits per person covered under each programme rose about one percentage point faster than the growth of real GDP. Even over the period 1975-1981, the growth rate of average real benefits kept pace with the growth rate of real GDP per capita. Even when more generous rules

were abated, it was rare for benefits to individuals to be increased less than roughly the rate of inflation.

A characteristic of many income maintenance or social support programmes is that they are open-ended entitlements, at least in the short-term. As discussed in Chapter 2 regarding pension benefits, once conditions of eligibility and rates of payment have been set, the total budgetary cost is determined by the number of eligible claimants who come forward. Their number is not always easy to forecast, even for short periods ahead. In addition, such entitlements impart a momentum to expenditure levels via the automatic changes caused by their underlying economic and demographic parameters.

Such cash payments, as well as being demand-led, may also be more precisely visible to recipients than services they receive in kind, or indeed public goods from which they benefit collectively rather than individually. For example, a change in formal or informal rules for increasing cash benefits in order to offset rising prices may be more sharply perceived by recipients – who are also voters – than, say a correspondingly marginal squeeze on resources for hospital services.

To the extent that this point is valid, it adds to the difficulty in changing at least the one third of government spending accounted for by social security benefits. The point may not be a strong one, however, because every spending programme has its customers and its advocates. In the above example, the professionals of the health care community may well be extremely aware of and vocal in protesting any such squeeze.

The increasing amount of total government expenditure which is pre-empted by the interest costs of accumulated public debt is also a potential source of concern over the inflexibility of expenditure. More generally, the increasing share of government expenditure which is in some sense predetermined by the weight of existing contractual obligations – such as public debt interest or entitlements based on separate legislative authority – imparts a certain measure of structural rigidity to expenditure budgets. This rigidity, or inflexibility to use a strong word, can to some extent impair the abilities of governments to alter spending allocations to

respond to changing circumstances or meet emerging priorities.

In *Denmark*, it is estimated that spending arising from standing laws or entitlement programmes, contracts, etc., increased from just over half of total expenditure in 1970 to about three-quarters by 1983; this spending included national pensions, unemployment insurance, general grants to local governments, child allowances, disability assistance and housing subsidies. The *United States* describes about three-quarters of total federal expenditure as relatively uncontrollable under current law in 1983, compared with about 60 per cent some 20 years ago. In the *United States*, relatively uncontrollable outlays include payments from past, irrevocable con-

tracts and interest on the public debt. Similar patterns emerged in other countries participating in this report.

In part because these structural rigidities and the implications for automatic expenditure momentum highlighted the need for governments to take a multi-year perspective, countries have developed medium-term budgetary targets and strategies. Chapter 4 deals with the development of targets and limits that give direction to a country's fiscal policy. Chapter 5 discusses the relationship between such targets, medium-term expenditure plans and the annual formulation of budgets.

HIGH-LEVEL BUDGETARY TARGETS

A. INTRODUCTION

The growth of the public sector, the changing composition of expenditure, a changing view in some countries of government's role in the economy, and concern over the consequences of continued increases in the costs of deficit financing, contributed to a change in the attitude of governments and the public towards government spending. There developed, over the late 1970s and early 1980s, a recognition of the need for more awareness of the financial consequences of government activities and public policy objectives. This changing attitude led in turn to the development of new instruments of expenditure policy and management, both to give voice to, and to contribute to the realisation of governments' objectives.

Determination to check deficits and reluctance to add much to tax burdens led governments to develop high-level budgetary targets, often spanning several years ahead, to which spending plans were to be accommodated. Regardless of the precise links, if any, of these targets with the budgets appropriated by the legislature, such targets help to constrain demands at the start of the annual budgeting process. The last ten years may be summarised as the decade when "top-down" constraints were gradually imposed much more effectively on the "bottom-up" demands of spenders, their clients and supporters. The present state of development and widespread use of such high level targets is the subject of this chapter.

All countries taking part in the study now publish some form of summary objectives or targets for fiscal policy. These usually include a target for expenditure. Many governments publish their budgetary targets to stimulate public discussion. Often this is seen as a way to further build consensus about fiscal policy goals and means to meet them.

Section B of this Chapter briefly discusses the various definitions whereby budgetary targets are formulated or expressed, and compares current country practices. Section C reviews the evolution of these targets on a country-by-country basis, and presents the particular objectives operative in 1986.

B. THE FORMULATION OF BUDGETARY OBJECTIVES

A government's high-level target reflects both its view of how the public sector affects the economy and its priorities for levels of taxation, borrowing and expenditure.

Such a target has to be expressed in simple terms, though it is likely to ensue from a variety of complex considerations regarding fiscal and monetary policy options, the size and role of government, taxation policies and, possibly, future sectoral policies. Targets that cannot readily be grasped by politicians, civil servants and many in the general public stand little chance of influencing decisions.

In virtually all countries – the exceptions being *Norway* and *Japan* – current budgetary goals are expressed as specific quantitative targets, rather than simply as a general qualitative statement of intent. Such precision does provide a strong unambiguous message as to a government's financial objectives to participants in the budget process and to the public, and at the same time more narrowly restricts the ability of the government to subsequently adjust its aggregate revenue and expenditure levels. This restriction is increased if targets are specified for each of several years forward, rather than as a level to be achieved by the end of a future period. The latter formulation permits some flexibility and "adjustment of course" in a given year, without the government having to call into question its publicly announced target.

The ability of a government to meet its high-level target while avoiding unexpected short-term disruptions in budgets, and the budget process, depends in part on the amount of direct short-term control which the government can exercise over the components included in the target variable; for example, an expenditure target which includes public debt interest payments raises the possibility that a government might have to intervene and take decisions (possibly expenditure cut-backs) to offset an unanticipated rise in interest rates during the course of a fiscal year.

The formulations of high level targets which are used in the eighteen countries surveyed can be grouped into three categories:

- i) A ratio, usually expressed as a percentage related to GDP or some similar indicator of aggregate economic activity. The ratio may relate to the level of accumulated public debt, or budget balance or government borrowing, or revenue or expenditure, or a combination of these;
- ii) A rate of change for expenditure. A guideline could be zero real growth over the stated period, some rate of increase or a real decline. Alternatively the target growth may be expressed in nominal terms, i.e. after taking price increases into account. Such growth rates may be published alongside target ratios for the budget balance or revenue burden.
- iii) An absolute value for the target variable in "nominal" terms. Targets in money terms can be expressed as either the future level of expenditure or the deficit, or as the amount of desired change from some baseline level.

Table I provides a synopsis of the form in which current targets are expressed by countries. A more detailed description is provided in the following Section and in the country chapters in Part II of this report. It is important to bear in mind the simplifications which are implicit in presenting the comparisons in Table I. What is being summarized is simply the form of target which a government is highlighting in its public statements of budgetary objectives. The table does not summarize all the targets which are implicit or operative in a govern-

ment's budgeting process – in some sense for many countries one could then put an 'x' in all columns of Table I – but rather the table synthesizes only the publicly explicit targets generally emphasized by the government.

In light of the comments above regarding the budgeting and expenditure volatility which might arise from choosing target variables which include elements beyond the direct short-term control of government, it is of note that nonetheless virtually all of the countries have an explicit numeric target for the deficit as a ratio to GDP. This raises two sets of issues: the nature and extent of the links which are drawn with these high level targets in the formulation of specific departmental budgets; and the expenditure monitoring and control practices (such as use of contingency reserves) during implementation of budgets. These issues are addressed in Chapters 5 and 6 respectively.

The following paragraphs describe briefly the recent history of budgetary objectives in each country, including the particular goals operative in 1985/86.

C. COUNTRY PRACTICES

Australia. Beginning in the mid-1970s, fiscal policy has been geared to reducing the federal budget deficit by restraining real growth in outlays. In the early 1980s, expenditure and fiscal policy was somewhat less restrictive in order to fuel economic recovery and meet social welfare commitments. In 1985, the federal government adopted a medium-term strategy with the target that the ratios to GDP of outlays, tax revenues and the deficit should not increase from 1984-85 levels in 1985-86 and over the life of the present Parliament. This so-called "trilogy" was strengthened by a commitment to reduce the size of the deficit in nominal terms in 1985/86.

Belgium. The public sector deficit has been a major preoccupation of governmental authorities for several years. The level of public debt and its growth are such, especially since the oil crisis, that they are leading automatically to a growth in interest costs, despite the adoption of many financial restructuring measures. In May 1986, a new financial restraint plan was established with a view to reducing net borrowing requirements to 8% of GNP in 1987 and to 7% of GNP by 1989, from a level of 12% in 1985. In reducing the financial requirements of the public sector, the results of this plan should lead to a reduction in interest rates which will be favorable for economic activity.

Canada. The 1975 White Paper – Attack on Inflation – declared that "the Federal Government shares the view that the trend of total spending by all governments should not rise more quickly than the trend of the Gross National Product." The Government made itself accountable for this new policy by announcing the target ceiling for outlays in advance of the fiscal year. While

Table I. Synopsis of Current Announced Budgetary Objectives

	Ratio to GDP			Growth rate of expenditure		Money level of	
	Def ¹	Expend	Revenue	Real	Nominal	Expend.	Def. ²
Australia	x	x	x				
Belgium	x		x				
Canada					x		x
Denmark	x			x			
Finland	x			x			
France	x						
Germany					x		x
Greece	x						
Ireland		x	x			x	
Italy	x		x			x	x
Japan							x ³
Netherlands	x		x				
Norway ³							
Portugal	x	x				x	
Spain	x	x	x			x	x
Sweden	x		x				
Turkey					x		x
U.K.	x	x				x	
U.S.A.							x

1. Deficit or borrowing requirement or accumulated public debt.

2. As noted above, the objective of Japan is not formulated as a specific numeric target.

3. Norway does not formulate medium-term targets.

the policy's stated objective was to hold federal spending to the trend in GNP, in practice it was applied through year over year comparisons of growth rates in government outlays and GNP. Since the inauguration of Canada's Policy and Expenditure Management System (PEMS) in 1979, the enunciation in the Budget presented to Parliament by the Minister of Finance of a multi-year Fiscal Plan, within which expenditure priorities are set, has been a key element of the budget process. The present government has shifted from a total outlay target to a budgetary expenditure target (i.e. excludes loans and advances), with primary focus on the budgetary deficit as an important fiscal indicator. The medium-term strategy is deficit reduction.

Denmark. In 1980, a medium-term strategy of gradual elimination of real growth in public expenditure was adopted. When the current government was formed in late 1982, it tried to implement maximum cut-backs in expenditures for 1983. The main fiscal objectives adopted in 1983 were the elimination, by 1990, of the central government deficit and zero real growth after 1983 in public expenditure, exclusive of cyclical changes in expenditure on unemployment benefits. Mainly due to a rapid economic recovery, the central government finances are expected to balance in 1986 and the total public sector to record a substantial surplus.

Finland. Since 1977, the government has set targets for gross tax rates and limits on State borrowing as part of its medium-term economic policies. In its economic policy statement of May, 1985, the Government stated that tax burden should not exceed the 1985 level at the end of the decade, and that the ratio of state debt to GDP should not increase. Furthermore, public expenditure is permitted to grow only at an average annual rate of slightly more than 2 per cent in volume until 1990; the real growth rate of Central Government expenditure has to be clearly lower than 2 per cent.

France. Following a brief period of expansion in the early 1980s, the Government moved to a more restrictive posture. Recent budgets have been guided by two fiscal constraints rolled forward from year to year: that the central government deficit is not to exceed 3 per cent of GDP; and that the tax and social security contribution burden is to be lowered by 1 per cent by 1985. A medium-term setting for fiscal policies has been provided by National Economic Plans since 1946. The Ninth Economic Plan (1984-1988) is more closely linked with the national budget than its predecessors. The economic plans contain targets for economic aggregates and indicate priority areas for public expenditure.

Germany. Formulation of recent budgets has been influenced by efforts to reduce federal deficits, keep the growth in federal expenditure to approximately half the nominal growth rate of GNP, and increase investment-related expenditure while restraining public consumption. At the same time, the government is attempting, as noted in Chapter 2, to reduce the "Abgabenquote" by a lowering of taxes. The current federal Financial Plan

published covering the years 1984-88 is based on a "consolidation strategy" applied since 1982 which is aimed at reducing the federal deficit to about half the level of the early 1980s. This will be achieved by holding nominal growth in federal government expenditure to a maximum of 3 per cent a year.

Greece. Since October 1985, a two-year stabilisation programme has been applied, targeting a reduction of the Public Sector Borrowing Requirement as a percentage of GDP by 8 percentage points (4 points each year). To achieve this target, the growth rate of public expenditure must be kept below the expected rate of inflation, and the tax system must become more efficient to combat tax evasion and increase tax collection.

Ireland. During the 1973-1980 period, the Government accepted big deficits to mitigate the consequences of two recessions. Since 1980 there has been a broad political consensus that the restoration of fiscal balance is essential for promoting long-term growth of the economy. Toward this end, Government policy has been aiming to reduce the deficit as a proportion of GNP and to move to budgetary balance by curtailing expenditure. In the years 1981-1984, the government was committed to eliminate the current account deficit over a four-year span. This proved difficult to achieve and in 1984 this objective was dropped on the grounds that rapid elimination of the deficit would have too great a deflationary effect. The 1985-1987 planning document "Building on Reality", published in October 1985 contains the objectives for 1987 of: reducing, or at least stabilizing, foreign debt and foreign debt servicing, both as a proportion of GNP; halting the growth of the overall national debt/GNP ratio; reducing the Exchequer (i.e. central government) borrowing requirement to less than 10 per cent of GNP (12.9 per cent in 1985); reducing the total public sector borrowing requirement from 17 per cent to just over 11 per cent of GNP; and reducing the budget deficit on current account to 5 per cent of GNP (8.2 per cent in 1985).

Italy. Current policies are aimed at reducing the total borrowing requirements of the State to about 7 to 8 per cent of GDP by 1990. This is roughly one half of the current ratio, and equates to levels existing prior to 1973. The target envisages reducing borrowing needs to almost zero excluding interest costs on accumulated debt. The policy also envisages no increase in overall tax or contribution burdens, excepting those required to finance new services, and the redistribution of the fiscal burden between direct and indirect taxes. The targets take into account the achievement of real GNP growth of about 3 per cent, a reduction in inflation to about 4 per cent and achievement of a viable balance of payments in the medium term. Under these conditions, the borrowing targets imply no real growth in current expenses and real capital spending growth somewhat less than GDP growth.

Japan. The Government has sought to slow the growth in the public sector but it has not adopted specific expenditure targets. The 1982 report of the Provisional

Commission for Administrative Reform urged that the growth rate of the expenditure general account budget should be kept below the nominal growth rate of the economy and the ratio of total expenditure of general government to nominal GNP should be kept at almost the present level. The Commission noted that although the tax burden will have to be increased, it should be kept much lower than that of European countries.

The Government's "Outlook and Guidelines for the Economy and Society in the 1980s", presented in the summer of 1983, endorsed the objective that the tax burden and the social welfare burden should remain much lower than in European countries. It also called for phasing out deficit-financing bonds during the decade. Recent budgets have sought to reduce the central government deficit by limiting expenditure growth. Guidelines call for freeing government from the characteristic of being dependant on deficit financing bonds and lowering the overall dependency on government bonds by 1990.

Netherlands. From the early 1960s, the Dutch Government worked to a norm for the annual budget deficit calculated by reference to the assessed growth of the productive potential of the economy. In 1976 the actual deficit was expected to be nearly double its trend rate. Fiscal policy then focussed on restricting the actual budget deficit, at least to its then accepted trend-based value of 4 per cent of net national income (NNI). There was also an agreement on the appropriate growth of the "collective burden", which would allow the ratio of tax and social insurance payments to NNI to rise by only one per cent a year. It was felt that these ratios were more meaningful to economic development than simply a target for government expenditure. In 1979 a more restrictive target for the collective burden was introduced: it would be held constant.

The coalition agreement on which the present Government is based includes the aim of reducing or at least stabilizing the collective burden and reducing the government sector deficit to 7.4 per cent of NNI by 1986 (as a step towards a longer-term goal). These targets imply a progressive fall in the ratio of public expenditure to GDP, especially as the collective burden has substantially declined as well. Medium-term projections of budgetary prospects are used to help decide what changes should be made in each annual budget.

Norway. No agreement exists on the appropriateness of fiscal indicators for medium-term fiscal policy determination. Such indicators are only considered useful for short-term budget formulation purposes. Among the general indicators presented in the Budget documents are the central government budget balance (before taking account of loan transactions), the balance excluding direct effects of the oil sector, and central government total spending.

Portugal. Since 1981, the general aim has been to stabilize or reduce the central government budget deficit. This has been given effect by expenditure

cutbacks and the imposition of special direct and indirect taxes.

Spain. Since 1983, the medium-term objective has been to control the public sector deficit and curtail current expenditure. The deficit is to be reduced to 3.5 per cent of GDP in 1988. In October 1984 a tripartite agreement was reached between the Government, the Spanish Confederation of Entrepreneurial Organisations and the General Workers' Union. This Social Economic Pact encompassed fiscal objectives of reducing the deficit from 5.0 per cent of GDP in 1985 to 4.5 per cent in 1986, and of increasing the state fiscal pressure. Government's current expenditure growth is to be slowed by deceleration of public sector wage increases and slowed growth of current transfers.

Sweden. In the late 1970s, the Government set a target of reducing the budget deficit as a proportion of GNP by an average of at least one percentage point per year during the 5 year period covered by the medium-term budget. Specified quantitative goals for expenditure cutbacks were also presented. In 1984 the Government adopted a medium-term policy of reducing the central budget deficit/GDP ratio from 13 per cent in 1982 to 4-5 per cent by 1990, which would result in no net borrowing by the public sector. At the same time, the tax/GDP ratio should be kept approximately constant. This implies a reduction in the expenditure/GDP ratio.

Turkey. Budgets are prepared within the framework of a Five-Year Development Plan. The Plan specifies targets for economic performance and aggregate targets for public finance, e.g. total public sector current and capital expenditure, transfers to other sectors, revenues and fiscal balances. The Plan also specifies annual target ratios of total public expenditure to GNP and corresponding real growth percentages.

United Kingdom. The Government has published medium-term public expenditure plans each year since the late 1960s. Since 1980, it has also published, with the annual budget, a medium term financial strategy (MTFS). This sets out its projections for the growth of money national income which are consistent with a continuing reduction in inflation while permitting sustained economic growth. Objectives are set for the growth of the monetary aggregates and for the path of the public sector borrowing requirement. The government is also seeking to reduce the burden of taxation. The objectives for borrowing and taxation jointly imply restraint on the growth of expenditure. The targets for expenditure alone are expressed in money terms (cash) at levels which imply that expenditure will be held broadly constant in real terms to 1988-89. A declining path for the ratio of public expenditure to GDP is implied. No separate targets are set for the total of central government spending alone.

United States. Recent administrations have emphasized their determination to lower the ratios of future taxes, deficits and expenditures to GNP. These fiscal policies are reflected in the annual budgets submitted by

the President to Congress. During the 1980 campaign for example, then-candidate Reagan announced a target of lower taxes and far lower spending relative to GNP, ending with a balanced budget by 1984. It has proven far easier to reduce taxes than spending and deficits. The 1986 budget set targets of a federal deficit/GNP ratio of 2 per cent by 1988. Targets were subject to adjustment as part of the negotiations with the Congress with regard to the President's budget proposals. Late in 1985, Congress passed a Balanced Budget and Deficit Reduction Act (the so-called Gramm-Rudman-Hollings Act)

which sets specific targets for deficit levels in each of the years 1987 through 1991, requiring elimination of the deficit by the latter year. Should the President and Congress fail to establish a budget which meets the targets in any year then automatic pre-specified procedures for expenditure reductions are imposed via this Gramm-Rudman-Hollings legislation to ensure deficit goals are met. The 1987 Budget, submitted by the President to Congress in February 1986, proposed a package which met the deficit targets.

FROM HIGH-LEVEL TARGETS TO THE BUDGET

A. INTRODUCTION

The expenditure budgets for a given fiscal year are the result of a process of reconciliation between a government's high-level budgetary targets and the competing claims for resources to meet existing programme needs as well as further policy developments in various sectoral fields. This chapter briefly explores a few aspects of this stage of budgeting and reviews country practices.

Section B of this Chapter offers some perspectives on the annual budget cycle which leads to specific proposals to be presented to the legislature: the timing and nature of the opening decisions; the extent of any direct linkage of sectoral or departmental budgets with high-level targets; the role, if any, of multi-year projections or plans; the starting point, or baseline, from which expenditure changes are negotiated; and the level of expenditure detail at play in the negotiations. Section C describes the budget formulation process in each country participating in the study.

B. SOME OBSERVATIONS ON BUDGET FORMULATION

A common characteristic of contemporary budgeting is that the process for developing sectoral or departmental budgets for a given fiscal year begins up to a year or more before these budgets are presented to the legislature. This long lead time is in part a reflection of the size and complexity of public sector activities. But also – and perhaps more importantly – sufficient time is required to reconcile competing programme needs and priorities within the limits imposed by a government's high level budgetary targets. Budget offices, spending departments and Ministers need sufficient time to settle priorities, identify and agree on cutback options if required to contain total spending within the agreed aggregate target.

In most countries, budget offices seek to integrate all decisions on new policies with financial implications into the annual cycle for formulation of the budget. This arises from a belief that it is necessary to establish

priorities amongst all competing demands and from a concern that allowing new policies to be considered and implemented outside the timing of the decisions on the budget will inevitably lead to an erosion of overall spending targets. In a few countries, *Canada* being a notable example, reserves are specifically provided, within the budget presented to the legislature, in order to accommodate the costs of specific policy initiatives not yet agreed or implemented.

This emphasis on the annual budget formulation cycle as a mechanism for integrating programme and policy choices is changing somewhat. A number of countries are shifting emphasis to formulation of a total financial frame or block budget for a given Ministry or spending department, within which the responsible Minister and officials have greater freedom to reallocate funds and adjust programme priorities. This decentralisation and deregulation, which is briefly explored in following chapters, can be seen as an extension and reinforcement of "top-down" budgeting; in return for greater policy or managerial flexibility, departments are expected to live within the previously approved budgets.

One example of increased emphasis on Ministerial block budgets is *Denmark*, where the overall expenditure target is broken down into specific spending targets for each Ministry almost one year before the start of a fiscal year. Another illustration is *France*, where a "lettre de plafond" is sent to each Minister from the Prime Minister about 6 months before the fiscal year begins, setting out the spending targets in large categories. In the three countries which annually review and approve comprehensive multi-year expenditure plans – *Canada*, *Germany* and the *United Kingdom* – the starting point for the deliberation of a programme's spending level in the upcoming fiscal year is, in principle, the levels for that year most recently approved in the multi-year plan. All changes are treated as new bids (or savings) by the budget office. Those changes which cannot be denied raise the question of how they are to be accommodated – whether by raising total spending, by funding from any available reserves, or by making offsetting savings in the same or other programmes.

Practices differ amongst countries with respect to the use of multi-year expenditure projections or plans. As noted, in *Canada*, *Germany* and the *United Kingdom*, they are detailed, annually updated, articulated plans providing disaggregated targets to guide the preparation

Table 1. Opening Stages of the Annual Budget Cycle

Decisions taken by		Nature of Decisions	Months before Budget presented to Legislature	Next Step
Australia	Cabinet	Total outlay and portfolio targets	6	Ministers prepare budgets addressing targets, for negotiation with budget office and Minister of Finance
Belgium	Ministers of Budget and Finance	Budget norms and guidelines	6	Ministers prepare budget proposals for review by Department of Budget
Canada	Cabinet Committee on Priorities and Planning	Total spending and broad sectoral targets (envelopes)	6	Ministers submit detailed departmental bids, for approved programmes, for negotiation with Treasury Board
Denmark	Cabinet	Total spending and a limit for each Ministry	6-8	Ministers present draft budgets to Finance Minister
Finland	Cabinet	Total spending and broad guidelines	6	Ministers submit budget proposals to Minister of Finance
France	Prime Minister	Broad guidelines in "lettre de cadrage"	9	Ministers prepare and negotiate requests, leading to a specific Ministry target in "lettre de plafond" 3 months later
Germany	Minister of Finance	Total spending and broad guidelines	9	Ministers submit detailed departmental bids, for negotiation with the Minister of Finance
Greece	Minister of Finance	Broad guidelines on total spending	6	Ministers submit budget proposals to Minister of Finance
Ireland	Cabinet	Targets for current deficit and borrowing requirements	6	Ministers submit bids for negotiation with budget office and Minister of Finance
Italy	Treasury Minister	Changes required in total and by department	6	Ministers submit budget proposals to Treasury Minister
Japan	Cabinet	Policy guidelines on budgets	6	Ministries submit proposals to Ministry of Finance
Netherlands	Cabinet	Changes (usually cut-backs) required in total and by department	6-7	Ministers prepare proposals to meet targets
Norway	Cabinet	Preliminary spending limits for each Ministry	9	Ministers submit draft budgets to Budget Department
Portugal	Cabinet	Minister of Finance sends general and specific departmental targets	9	Ministers prepare proposals and submit to Minister of Finance within 3 months
Spain	Cabinet	General budget guidelines	6	Ministers prepare budgets for negotiations with central budget office
Sweden	Cabinet	Broad guidelines and changes (i.e. cut-backs) needed, in general	9	Ministers prepare proposals to meet targets
Turkey	Prime Minister	Broad statement of budget goals	4-5	Ministries prepare detailed budget proposals for negotiations with Ministry of Finance and (for capital spending) with State Planning Organisation
United Kingdom	Cabinet	Planning total set for 3 years forward	9	Spending Ministers submit bids, if necessary, for amounts in excess of previously agreed baseline
United States	President	General fiscal and budget guidelines; sometimes departmental-specific	15	Spending agencies submit bids to OMB

of future years' departmental or programme budgets. Most countries, however, develop projections of the financial consequences in future years of some elements, if not all, of the current stock of expenditure programme decisions or investment plans. These projections are sometimes annually, or more frequently, updated and influence the government's decisions about the level and distribution of expenditures to be incorporated in upcoming budgets. The coverage, time frame, degree of detail, frequency of updating, publication etc. vary among countries. More details are provided in Section C.

As might be suggested by the relative size of the blocks which are the focus of budget decisions, countries vary in the level of detail at which negotiations are conducted between budget offices and spending departments. In *Denmark* the focus is on the large Ministry frames, and while there inevitably is an exchange of views on particular detailed requirements, the concern is on defining options for keeping spending within a specified limit for a Ministry. The focus of discussions is more traditionally detailed in some countries: in *Germany*, for example, the budget office works at the level of changes to the roughly 7000 items to be voted the Budget Bill, although of course there is an emphasis on the 100 major items accounting for nine-tenths of total spending. The same level of detail is followed for the future years of the financial plan in *Germany*, but it is aggregated into about 40 large blocks before being published and presented for information to the legislature.

Practices are changing in some countries, particularly with respect to departmental administrative or operating expenses. In a number of cases, these are increasingly determined by top-down targets which reduce real budget levels to reflect, and to force, productivity gains. Chapter 7 discusses this aspect of some countries' budget formulation practices.

The following table attempts to summarise the timing and nature of the key opening decisions in the annual budget cycle, and to note the next phase in that cycle. A more complete elaboration of the cycle is presented in each of the country chapters in Part II.

C. COUNTRY PRACTICES

Australia. To start work on the budget, the Department of Finance in October/November asks spending departments for minimum estimates of outlays in each of the three years starting 1 July next (i.e. the budget year plus 2 outyears). These projections are usually at constant prices and include only the likely costs of approved ongoing expenditure programmes in the absence of policy changes. The costs of expiring programmes which are likely to be renewed and whose exclusion would therefore bias downwards the estimates

are separately identified. Bids for new proposals are called for separately, depending on the likely level of resources expected to be available. When the Department of Finance assembles its overview, it adjusts all the projections to a consistent (budget forecast) price basis. The projections cover all estimates of total budget outlays including lending and debt interest payments.

The Cabinet then indicates broad aggregate targets for the budget year. Separate outlays targets are set for each portfolio which are consistent with the broad expenditure guidelines. The method of setting targets is still evolving in order to better reflect the priorities of the government as a whole. Each portfolio target provides a benchmark against which individual ministers canvass options which reflect the target. Detailed consideration by Ministers collectively follows, to yield expenditure figures for the budget year which form the basis of the outlays side of the Budget brought down in August. A summary of the figures for the budget year plus two outyears is published shortly after the Budget, together with some analysis of, for example, their sensitivity to alternative assumptions about key economic variables.

Belgium. The preparation of the annual budget begins with consideration in Cabinet, generally in February or March, of technical guidelines recommended jointly by the Minister of the Budget and the Minister of Finance. Agreed guidelines are then provided to spending ministries, which prepare estimates by May, based on unchanged policies. These estimates are reviewed during June and July in bilateral meetings with the Department of the Budget. Cabinet decisions on the total level of spending and any desired changes or cutbacks are made on the basis of an assessment report prepared by the Department of Budget following the bilateral reviews. Capital projects, including associated three-year cost estimates, are reviewed by a Commission on the Orientation and Co-ordination of Public Markets which drafts a report for decisions by Cabinet.

Canada. A top-down fiscal planning system for establishing overall and sectoral fiscal targets expressed in cash interacts with a detailed bottom-up multi-year operational planning system, initially expressed in constant dollars, which deals with each element of spending. The Secretariat of the Treasury Board manages these bottom-up operations, in conjunction with the Privy Council Office which supports ministerial committees and Cabinet and the Department of Finance which deals with the top-down fiscal planning system.

Each year, the federal Government reviews and rolls forward its Fiscal Plan containing the current financial year, the next year and the two following 'planning years'. Using the Policy and Expenditure Management System (PEMS), initial projections of federal expenditures, revenues and economic conditions are evaluated in the light of the Government's priorities. The result is a planned path for total federal expenditure in each year, divided between an 'envelope' for each policy sector, which may include policy reserves to fund new initiatives. Provision for the costs of public debt and centrally-

held reserves are dealt with separately. These figures are published as part of the Fiscal Plan in the Budget documents.

Each spending department develops its multi-year operational plan (MYOP) each year. These plans are then the subject of negotiations between the Treasury Board Secretariat and spending departments, leading to decisions by Treasury Board Ministers on the resources needed to continue existing programmes over a three-year period, namely the next year (for which appropriations will be sought from the Federal Parliament) and two following years.

The Estimates presented to the Federal Parliament approximately one month before the beginning of the financial year, seeking appropriations, reflect financial and authorities' requirements of the first year of the approved MYOPs, but are based on a recognition of the multi-year costs involved.

Denmark. Unlike Australia and Canada, where the main focus is on the federal budget only, the high level expenditure target in Denmark relates to the whole public sector. It is expressed as an on-going target (zero real growth in total public spending, excluding debt interest costs and excluding cyclic changes in unemployment benefit) rather than related to a particular future year. For work on the central government budget, this broad public sector target has to be converted into a limit for all central government spending, including its grants to lower tiers of government and trend unemployment costs.

Multi-year expenditure projections have been an integral part of the central Government's annual budget since 1965. An appendix accompanying the annual Appropriation Bill shows figures for expenditure items for each of the three years following the budget year in the same degree of detail and at the same pay and price level as the votes. The assumptions underlying all the numbers are published in another appendix.

When the budget is passed by Parliament in December, the projections generally reflect decisions taken so far. Work on the next budget starts at once. The first step is to announce the target for next year's expenditure. The budget department in the Finance Ministry then adjusts the published projections to the assumed pay and price levels to be used in the next budget. A view is formed of the likely bids for new expenditure programmes, and of the necessary and possible cutbacks from the published programmes. In February, the Minister of Finance proposes to Cabinet a set of net spending limits or "frames", one for each Minister, consistent with the new target for the total. The limits decided by Cabinet, and any general measures that may also be agreed set the framework for the drafting of budget proposals in the various Ministries. In effect, the spending limits delimitate an expenditure block for each Ministry, leaving them significant freedom in how to arrange the budget proposals. This means that further negotiations within the administration and at a political level in the following months are focused on the

development of cutback options for those Ministries that find it difficult to keep budgets within the agreed limits.

Finland. Since the late 1960s the ministries have been required to prepare multi-year plans and estimates of expenditure and non-tax revenue every autumn and present them to the Ministry of Finance (MOF). The plans are usually based on ones which the ministries obtain from the executive agencies. Every second year, the previous plans are only updated by means of the same process, without adding a new final year. The forward period covered in these intervening years is 4 years. The plans consist of two sets of figures, first of a base estimate of existing commitments and, second, of development plans, which include proposals for new investment, development projects and drafts for new legislation. They are formulated in the price level used in the budget proposal for the coming year.

When these multi-year expenditure plans reach the MOF in December, it organises, summarises and scrutinises them, following internal procedures quite similar to those used in the annual budget work. The MOF prepares macro-economic assessments for fiscal policy guidelines for future years and detailed comments for each ministry on expenditure in the medium-term. Fiscal policy goals are approved by the Government in the early spring and usually given to Parliament in the form of an economic policy statement. Letters are then sent by the MOF to the ministries commenting on their expenditure plans. The detailed comments represent the view of the MOF on what the level and development of expenditure should be in every major programme category in the next year's budget proposal and, more indicatively, over the medium-term projection period. This process ends in March, so that it may influence the Ministries' spending proposals for the next budget year, which are submitted to the MOF at the beginning of May.

France. Work is in hand to clarify the linkage between the five-year Economic Plans and the annual Finance Act. It is done under the terms of the 1982 Act to reform the planning process.

Among other changes, the Government undertook to publish indicative reviews of central government finances covering three years to help clarify the linkage and as background to other new proposals about expenditure. The Ministry of Economy and Finance was made responsible, drawing on projections prepared by the ministries for their respective budgets. Projections of Government expenditure, based on the 1984 Budget and covering the three years 1984-86, were published in the spring of 1984 as background documents for Parliament. The three-year projections were presented in very broad aggregates while revenue was treated as a one line entry.

Germany. Since the reform of budgetary law in the late 1960s, the budget plan is embedded in a medium-term Financial Plan which is presented by the federal government to Parliament each year together with its

draft annual budget. Both the plan and the annual budget are developed in light of the fiscal intentions of the Länder and local authorities as expressed in the Financial Planning Council, where all tiers of government are represented. Quantitative proposals made by the Council relate to annual nominal growth of total expenditure as well as to net borrowing. These are the basis of the top-down planning system for the annual budget and the plan.

For the Plan, estimates of future federal revenues are based on macro-economic projections and assumptions. The plan also indicates the Government's policy for the path of the federal budget balance. Future expenditure is presented in the plan for each year, distributed over about 40 comparatively large blocks. These blocks are aggregated from figures prepared in a bottom-up approach and agreed between the spending ministries and the Finance Ministry (and approved by the Cabinet) in exactly the same detail as those compiled for the budget year (which are set out in minute detail for Parliamentary approval of the budget). By way of developing the individual future cash needs, on the basis of the draft Budget's estimates, for the last three years of the planning period, some blocks include allowance for price increases affecting specific existing programmes (e.g. indexed social expenditure, interest payments). There is an unallocated planning reserve in each of these three years for further price increases and new programmes. There is also a global provision for increases in wages and salaries.

The most important purpose of the medium-term Financial Plan is to set priorities in line with the Government's policies and to prevent excessive demands being made on the federal budget. In each annual cycle, the previous Plan as a whole is brought up-to-date and a new year is added. In the spring (10 months before the budget year begins), there is a general review of prospects and aims. The detailed instructions issued by the Finance Ministry in December, calling for expenditure bids, generally ask departments to keep them within the upper limits laid down in the current financial plan.

The Ministry of Finance circular calling for departmental bids includes special regulations referring to the increase of current or administrative costs of departments. For several years, in general, an average increase of 2% per annum has been the ceiling, with the further restriction that expenditure for representation and public relations ought to have no increase.

Greece. There is no multi-year budgeting in Greece. However, each annual budget must be consistent with the medium-term qualitative fiscal policy guidelines incorporated in the Five-Year Development Plan. As noted earlier, quantitative targets for total borrowing have been set for 1986 and 1987 as part of a two-year stabilization programme.

Ireland. While medium-term economic plans are not published regularly, there is a regular cycle of medium-term expenditure planning. Multi-year projections of

expenditure in current prices are now sought annually from spending departments. These projections are critical to the overall review of the development of the budgetary aggregates. The Cabinet decides on appropriate targets for the following budget year in the light of medium-term trends. The most recent economic plan, "Building on Reality", covers the period 1985-87. As noted in Chapter 4, the plan specifies broad medium-term targets, expressed as a percentage of GNP for the current budget deficit, the Exchequer borrowing requirement, the public sector borrowing requirement, aggregate non-capital spending and aggregate public capital expenditure. It also specifies cash allocations (capital and non-capital) for departments for each of the years 1985 to 1987.

Italy. The political consensus reached in 1976 on a budget policy to reduce the public sector deficit led to a major reform of budget procedures culminating in Law 468 in 1978. This law enabled the Government to start making the annual budget a policy instrument to support economic and fiscal/monetary objectives and other policy goals. It recognised the need to transform the budget into an instrument for forecasting and decision-making in an economic framework which was internally consistent within the public sector and in which Parliament provided more incisive policy guidance and exercised greater control. It also emphasised the direct involvement of public sector institutions in the task of getting their respective budgets back into balance.

Two versions of the multi-year budget are prepared and published each year. The first, known as the "trend" version, is based on current legislation and shows the expected trend in expenditure and receipts under the financial regulations in force. The second, or "programming", version allows for the effects of potential policy changes. By comparing the two versions of the multi-year budget projections and examining the macro-economic implications of each set of projections, Parliament is better able to consider and assess the Government's proposals for legislative action and the consequent effects on the economy as a whole.

Japan. There is no regular annual cycle of medium-term expenditure planning. Instead, Japan relies on a carefully developed consensus about social and economic goals and problems to assist the preparation of the annual budget. The tenth medium-term social and economic plan, "Outlook and Guidelines for the Economy and Society in the 1980s", published in August 1983, contained a section on broad policy directions, including a chapter on fiscal reform and financial policy which outlined very general aims. In contrast to the ninth plan, no expenditure projections were included.

Against the background of the Plan, the Ministry of Finance (MOF) submitted three reports to the Budget Committees of both Houses of the Diet in February 1984. They developed in more detail the medium-term and longer-term management of public finance and

indicated the guidelines within which the MOF hoped that spending departments would submit plans each August. They were in effect, a declaration of MOF intent. The first document, "Basic Philosophy Regarding Future Fiscal Reform", included the aim of holding down the annual growth of general expenditure below that of nominal GNP by:

- a) A thorough review of various expenditure programmes;
- b) Severe restraints on the growth of personnel expenditure;
- c) Increasing user's charges for various public service items; and
- d) The continuation of strict guidelines for government departments' annual budget requests.

The other reports contained scenarios and projections on alternative hypotheses, to help to stimulate widespread appreciation of the issues.

Though there is no comprehensive multi-year expenditure plan, 15 medium-term public investment plans are currently in progress. Nearly all are for five or six years and one extends over 10 years. Not all cover the same period. For example, the ninth Road Development Programme covers FY 1983-87 while the third Land Improvement Programme covers FY 1983-92. These programmes are implemented flexibly taking account of socio-economic change and the fiscal situation.

Netherlands. The Government maintains a set of multi-year expenditure as well as non-tax revenue projections. At the start of the annual budget cycle, they represent – in constant prices – the outcome of the last budget cycle, adjusted for subsequent policy changes, and for changes flowing from recosting existing policies or from new economic assumptions.

The Minister of Finance forms a judgment as to how these projections need to be changed in the new budget, bearing in mind the deficit targets that would be compatible with the Coalition Agreement, the prospects for revenues and the likely scale of irresistible new expenditure pressures.

As the between-budget changes to the projections tend to be additions and there are always policy proposals for new or more spending, the Minister of Finance is almost always seeking cutbacks. Besides, savings from cutbacks achieved in a particular year do not usually increase over future years, even if this is deemed to be necessary from a medium-term point of view. At an early stage, he seeks Cabinet endorsement of the total change and the changes he proposes for each department. Some candidates are found among the reports flowing from the review procedures described in Chapter 7.

Norway. Multi-year projections for 29 categories of programme of spending, covering three years beyond the upcoming fiscal year, are presented to Parliament for information in the annual budget proposal. However, these are not spending plans, but simply forecasts, prepared in the Budget Department, of the possible future cost of existing programmes. Parliament does not

approve these projections, nor are they a formal input to formulation of the next annual budget.

Preparation of the annual budget is initiated in January when Cabinet approves a set of general guidelines and preliminary spending limits for each Ministry, based on proposals by the Minister of Finance. In May, Cabinet meets again to consider budget guidelines in light of detailed budget estimates which have been prepared by Ministries and submitted to the Finance Ministry by April. During the June through August period, the Finance Ministry holds bilateral meetings with spending Ministries to try to arrive at agreed budgets. If necessary, Cabinet resolves unsettled items during a meeting in August or September, at which time final government proposals on taxation and economic policy are also determined. The government's budget proposals are submitted to Parliament in October, 3 months before the start of the fiscal year.

Portugal. There is no comprehensive system for medium-term expenditure projections. The budget law imposes an obligation to make clear in the annual budget the multi-year consequences of programmes and projects marked for investment under the *Programas de Investimentos e Despesas de Desenvolvimento de Administracao Central* (the Capital Budget). An updated programme of works has to be submitted each year to enable adjustments to be made to the annual budget and possibly to the programme, depending on its progress.

Spain. There are so far no comprehensive multi-year projections or plans for public expenditure in Spain. The Government's rolling four-year Medium Term Economic Programme provides the framework for the general economic and sectoral policies reflected in each annual budget. In addition, a Public Investments Committee, set up in 1980 under the State Secretariat for the Economy and Planning, sets the investment plans, up to four years ahead, of individual ministries. The linking of the annual budget with the multi-year economic plans is one aspect of the major reform of budgetary procedures which began in 1983.

Sweden. Six months before work starts within the administration on the annual budget, the Government gives Parliament multi-annual projections of expenditure and revenue and conclusions for budget policy, reflecting the Government's fiscal objectives. Parliament only comments on this "Langtbudget" (multi-year budget) and thus influences the Finance Ministry's circular to Ministries to start work on the annual budget.

The "Langtbudget" covers the current year, the budget year and three forward years. It was originally a mechanical projection of the financial consequences of existing decisions and commitments. It now incorporates more advanced simulations and deeper analysis of the factors behind budget developments drawing on the results of policy reviews and other studies. The scope has been extended to include the local government sector, the social security sector and, to some extent, the

financial consequences for the private sector. Through these developments, the "Langtiburget" now has a much enhanced role as a foundation for budget policy guidelines for the short and longer term.

Turkey. There is no formal multi-year budgeting system in Turkey. As noted in Chapter 4, multi-year fiscal and expenditure objectives are set for the public sector in each Five Year Development Plan, and yearly targets are provided via the Annual Programmes. Multi-year investment programmes are formulated on a bottom-up project basis by agencies in negotiation with the State Planning Organisation.

The annual budget cycle begins in June, six months before the start of the fiscal year, with a Budget Message issued by the Prime Minister. This statement offers a broad statement of principles for the forthcoming budget. On the basis of technical instructions from the Ministry of Finance and Customs (MF) in June, spending Ministries prepare detailed budget proposals for current expenditure. These are the subject of discussion and negotiation with MF over the next two or three months, culminating in decisions by the High Planning Council and Prime Minister. In parallel, Ministries prepare and submit investment project budgets for negotiation with the State Planning Organisation and resolution again at High Planning Council and Prime Minister's level as required. The draft budget bill is presented to the legislature in October, at least 75 days before the start of the fiscal year.

United Kingdom. The multi-year Public Expenditure Survey (PES), first developed early in the 1960s continues to cover the whole public sector. This is consistent with the focus in the Government's Medium Term Financial Strategy (MTFS) on the borrowing requirement of the whole public sector (PSBR) described in Chapter 4.

Since the expenditure figures are effectively decided in the Public Expenditure Survey, the start of the budget cycle can reasonably be described as the start of the next PES. Within the framework set in the most recently published MTFS, this occurs about a year before the start of the budget year; in fact close to the Budget day that concludes the previous cycle.

The new PES deals with the two years following the financial year that is just starting and a new third year. The baseline for the first two years is taken from the recent public expenditure White Paper that records the result of the previous cycle (adjusted for any changes in the classification of public expenditure), and a baseline for the new final year is generated by the Treasury against the background of the prospects for taxation, expenditure and borrowing which were set out in the MTFS as part of the Budget in the previous March or April. Spending Ministers are expected to live within their baselines, which represents years settled only a few months before, but if they consider this impossible they submit bids to the Treasury for new or changed programmes and are pressed to make room for them by finding 'offsetting reductions' in their existing plans. In the summer, Cabinet decides the 'planning total' for

each year of the new PES and the Treasury Minister responsible for expenditure then negotiates bilaterally with each spending Minister with the aim of achieving a set of programmes that fits into the available total and leaves a sufficiently large unallocated Reserve in each year from which the Treasury will be able to accommodate unforeseen developments. In recent years, it has been necessary for a small group of senior Ministers to meet to consider unresolved issues arising out of the bilateral discussions and to make recommendations to Cabinet on how they might be resolved. The total provision for each department is decided in the autumn and the detailed results are published in the following January in the public expenditure White Paper before the start of the fiscal year in April.

United States. Formulation of a particular fiscal year's budget has usually started in the spring, 8 months before it is submitted to the Congress and 18 months before the start of that fiscal year. However, because of the recent intense year-round activity on the budget and increased emphasis on a 3-year budget plan, the Spring Review has been less active during the past two to three years. The starting point for the analysis and the initial target for agency budgets is usually the second year of the 3-year budget plan that is then before Congress. The process begins when broad agency programmes are evaluated by the Office of Management and Budget, and policy issues are identified. Using programme information provided by the agencies and projections of receipts prepared by the Department of the Treasury, the OMB prepares budgetary projections extending over five years. These are presented to the President for consideration, along with projections of the economic outlook, prepared jointly by the Council of Economic Advisers, OMB and the Treasury, on which the budget projections are based.

During the summer the President establishes general budget and fiscal guidelines which are essentially policy directions and planned ceilings for the fiscal year that will begin 15 months later and for the four years beyond. These guidelines are promulgated to the spending agencies to guide them in the preparation of their budget requests.

The President's budget is submitted to Congress early in the new calendar year – 9 months before the start of the fiscal year. It includes projections based on current policies, as well as projections reflecting the President's proposals. The Congressional Budget Office (CBO) also publishes, soon after the release of the President's Budget, multi-year projections of outlays, receipts and the deficit, together with a substantial amount of detail on the economic assumptions which underlie the projections. These baseline projections are similar to the Executive's "current services" estimates but are based on economic assumptions which may differ from those of the President. The Budget Committees and the Congress as a whole may use the assumptions, budget estimates and forward projections from the President's Budget or from the CBO or some compromise figures.

EXPENDITURE CONTROL PRACTICES

A. INTRODUCTION

This chapter reviews some of the ways in which governments seek to make their expenditure control systems both robust and flexible to cope with the turbulence of current events and the uncertainties of the future. Any government wants to have available a range of instruments that allows it some room for deciding how and how far to accommodate new problems and opportunities as they arise. In broad terms, governments want systems and procedures that: continue to be relevant whether aggregate expenditure policy is very restrictive of spending growth or more relaxed; enable the government to achieve its aims for aggregate spending, which may call for sudden action to protect an announced target; and, are accepted as reasonable, or as reasonable as prevailing circumstances permit, by those in spending departments whose primary concern is the level and quality of the services provided, directly or ultimately, to the public.

A number of initiatives are, and have been, underway to adapt and develop systems and procedures, so this chapter is necessarily selective in both the topics reviewed and the examples cited to illustrate them. The aim is to address issues likely to be of wide interest.

The three topics reviewed all address the same fundamental issue: how to keep to the chosen path with the least arbitrary and disruptive interventions in the work of the spending departments. The topics are:

1. The use of unallocated reserves in planning and in execution;
2. Arrangements for in-year monitoring and control of cash flow; and
3. Monitoring and controlling commitments.

B. UNALLOCATED RESERVES

Some countries make provision, within their overall expenditure targets, for an unallocated reserve, or contingency funds, to provide some room for manoeuvre to deal with unexpected expenditure requirements. Selected country practices are described in this section to illustrate the main general issues.

In some countries, for example *Australia*, *Canada*, *Italy* and *Sweden*, some contingency funds are actually appropriated to the budget office at the start of a fiscal year. In *Australia*, a specific amount (known as the Advance to the Minister for Finance) is appropriated to be allocated at the discretion of the Minister for Finance. In exceptional circumstances, spending agencies may apply to expend funds from this appropriation. In *Canada*, this contingency vote is, in effect, only used to adjust departmental salary budgets for wage rate increases not originally provided for, whereas there is in principle no such restriction on the "reserve appropriation" in *Sweden*. In *Italy*, reserves totalling about 8 to 10 per cent of total spending are approved by the legislature to be used to meet the costs of new laws or programmes not yet announced or approved, and to meet unexpected cost overruns on some programmes. In *Turkey*, a small contingency reserve, "Reserve Fund and Investment Acceleration Fund", amounting to about 3 per cent of the total consolidated budget, is appropriated to the Ministry of Finance and Customs for use in emergencies.

In the past, prior to the 1982 fiscal year, the *United States* budget contained a contingency allowance. In fact, the Congressional Budget Act of 1974 requires two explicit contingencies – one for uncontrollable programmes (such as social insurance payments) and the other for programmatic increases. The executive branch has consistently placed the contingency reserve for relatively uncontrollable programmes at zero, and more recently has done the same for the other contingency allowance.

There are alternatives to a formal reserve. For example, in preparing the 1980 budget, *Japan* adopted the principle of 'scrap and build'. A new organisation or programme would be 'built' only when an existing organisation or programme that had become out of line with the needs of the time was 'scrapped' after appropriate review. In the *Netherlands*, there is no formal reserve. Instead, the government has developed elaborate "Rules of Stringent Budget Policy" which apply to in-year control only; these rules specify how both adverse and favourable developments during the course of a fiscal year are to be tackled.

Experience shows that specific multi-year projections and plans tend to underestimate future costs, whether from natural optimism about the ongoing costs of continuing programmes or because, when plans are

made, governments are reluctant to incorporate many specific new initiatives in individual departments' plans. In *Ireland*, the published medium-term profile of capital expenditure for the period 1985-87 incorporates an unallocated contingency provision equivalent to 2.75 per cent of the planning total for 1987, to be allocated in the light of the budgeting outlook for economic and productive infrastructure investments.

Canada and the United Kingdom, which use comprehensive multi-year expenditure plans in the context of a financial plan or strategy, include an unallocated reserve in the total of expenditure shown for each forward year. *Germany* – which also develops an integrated multi-year plan – includes such reserves only for the last three years covered by its plan, that is the years beyond the upcoming annual budget.

In these three countries, the contingency margin or reserve is thought of as a buffer or shock absorber protecting the planned total from damage when a particular programme has to be enlarged, or a new programme added, in successive planning cycles to cope with some new need. It may also provide a possible way of protecting individual programmes to some extent if the planned total has itself to be cut; but if there is to be confidence in the usefulness of a reserve, it has to remain at a credible size.

Canada and the United Kingdom use the reserves planned for the upcoming budget year as an operational control during that year. Two practical issues are: first, how the reserve is deployed in the negotiations between the budget department and each spending department to agree how tightly individual departments' programme budgets should be drawn – how far should a spending department's plans include implicit or explicit local reserves; and, secondly, how best to manage the reserve so as to discourage individual ministers and their departments from regarding it as an easy way out of a new difficulty. The notes below on the use of reserves in *Canada*, *Germany*, and the *United Kingdom* illustrate their individual approaches.

Canada. When the multi-year Public Expenditure Management System (PEMS) was first developed in 1979, there was an elaborate set of unallocated reserves. The 'envelope' for each policy sector (each policy sector contains several programmes that are closely related in terms of broad objectives) contained an operating reserve and a policy reserve. The former was intended as a contingency to meet unforeseen cost increases in the operational planning forecasts based on current policies. The latter was intended to finance new or enriched programmes decided upon by the Ministers of Cabinet concerned with the use of the money allocated to the envelope. A policy reserve could be zero or negative (i.e. requiring the envelope managers to find savings in existing policies). A policy reserve could be supplemented by savings in existing programmes – other than purely estimating savings – and was intended thus to be an incentive to review priorities and the value for money provided by the several programmes in the envelope. In

addition, there was a central reserve, controlled by the Minister of Finance, to meet cost overruns in public debt charges or in major entitlement programmes such as unemployment contributions, where such increases did not arise from policy decisions.

The reserves originally totalled around 6 per cent of planned total outlays, but in recent years they have been significantly reduced to between 3 and 5 per cent of total spending. The Treasury Board Secretariat is responsible for producing a weekly summary of the status of all these reserves in each of the present and three forward years, showing how much is already committed and the remaining balances.

In 1984, the separate operating reserves previously in each envelope were centralised in a single Operating Reserve controlled by the Treasury Board, which continues to determine which excesses are to be accommodated from this Reserve and which must be absorbed by the spending department somewhere in its existing allocation. Envelope-specific policy reserves (those allocated by sectoral Policy Committees of Cabinet) were reduced in size, resulting in stronger competition for available funds. Special purpose contingencies began to be provided by the Minister of Finance, however, indicating increased emphasis on centrally managed reserves. The Minister of Finance also continued to control the central reserve, renamed "Reserve for Statutory Overruns" to highlight its specific purpose.

The sum of reserves provided in the 1986-87 fiscal year accounts for 2.6 per cent of total budgetary expenditures (compared to 4.4 per cent in 1985-86), of which 1.6 per cent was not allocated to envelopes, but is managed centrally. Only 1.0 per cent was allocated by envelope for new policy initiatives. This orientation toward centrally managed reserves is in conformity both to changes in the roles of Cabinet Committees and the increased emphasis on imposing stricter cash limits on spending departments and agencies.

The general effect of the changes is to increase the influence of the Treasury Board over the use of operating reserves and to encourage individual departments to redeploy their own allocations to meet changing priorities, thus protecting the planned total of outlays. The envelope policy reserves continue to be managed by the sectoral policy committees of Cabinet, although the significant reduction in the size of these reserves has forced greater attention to reallocation of existing resources.

Germany. The multi-year financial plan published each year with the budget implicitly contains a general planning reserve for future years intended to cater for contingencies, extended or new programmes, as well as for some price increases. The size of the global planning reserve included for any future year is not based on any simple formula but rather it reflects a judgment as to the expenditure risks inherent in the plan for each year. There is also a special wages and salaries provision for future pay increases for federal civil servants. The size of this wage and salary provision is based on estimates of

the average annual increases in per capita wages. The size of these future year reserves is not published. As noted earlier, except for the ear-marked wage and salary provision, there is no reserve available for adjustments during the course of implementation of a given budget year, unlike Canada and the United Kingdom.

United Kingdom. The annual public expenditure White Paper shows a reserve within the planning total for each of the three forward years. Recently, the reserve has accounted for 3 to 4 per cent of the planning total for the first year ahead, rising to 5 to 6 per cent for the final year.

For the first year, the Reserve is managed by the Treasury as an operational control to protect the planning total within the year. All expected overruns that cannot be absorbed by the spending department concerned are debited to it; net savings are credited to it. This means that, for example, excesses of spending by local authorities over the Government's plans for them are regarded as a charge on the Reserve, as are excesses on demand-led programmes such as social security. Discretionary increases are also charged if they are accepted by the Treasury. The Treasury is, therefore, very cautious in accepting discretionary claims on the Reserve, and also seeks offsetting savings against non-discretionary increases where possible. A spending department faced with the unexpected is always expected to find savings in its other programmes and to seek access to the Reserve only as a last resort. There are standing procedures for submissions to Treasury ministers about claims that are pressed. The Treasury monitors spending closely throughout the year against plans.

If a claim is accepted, and is for a programme financed from money voted by Parliament, a suitable supplementary appropriation has then to be sought and, if the vote is subject to a cash limit, a suitable change in the limit has also to be agreed and announced.

Future year reserves do not have the same control function as the current year reserve. The function for future years is to act as a buffer in the planning process. It is typical for the reserves in future years to be wedge-shaped, i.e. larger the further in the future is the year to which they apply. This is to allow for the fact that, as plans firm up for departmental programmes, it is less necessary to allow for such a large measure of uncertainty, so the reserve can be slimmed down somewhat in nearer years.

C. IN-YEAR MONITORING AND CONTROL OF CASH FLOW

All the countries in the study can add to or reduce a year's spending after it has begun by means of a supplementary budget. In some, the government, without Parliamentary approval, can block or delay the

use of some previously approved appropriations, over and above any standing arrangements that require a spending department to seek further approval for the use of approved funds on particular items such as capital projects that are above limits of delegated authority.

An early signal in the mid-1970s of the determination to assert more control over spending was more attention to the actual execution of the annual budget and a greater readiness to cut some spending back during the year. Some of the things that were done were relatively crude and arbitrary in their incidence or effect. As well as needing to contain mounting deficits, there was a wish to convince quickly all concerned that their situation had changed and so speed up changes in their attitudes and behaviour. Countries are now adapting and building on what began as emergency actions: the information needed to monitor how actual spending compares with budget and to explain divergences provides part of the information needed for better financial management.

The design and operation of in-year control and monitoring systems has to be sensitive to the relationships and balance of responsibilities between spending departments and the budget office. Some of the procedures put in place since the mid-1970s may cause tensions between the budget office and the spending departments in implementing a government's policies as reflected in its expenditure plans. It is helpful to distinguish two main purposes of in-year control and monitoring. The balance between them may affect the chosen form of a country's arrangements.

First, there are the requirements of a central authority responsible for arranging the government's borrowing. When budgetary deficits are significant in a country's economic and monetary conditions, the finance ministry may want very prompt and frequent information about actual spending, and likely spending a few months ahead, to help its forecasting of the government's cash flow and hence to help manage borrowing activities. Some central ability to control, rather than simply monitor, the flow of spending in the very short-term may also be required.

Second, and quite separate from such overall cash management requirements, all concerned with the management of individual programmes need to monitor spending compared with budget, in order both to stay within the available budget and to get best value for money. Countries vary in the extent to which the budget office delegates authority to spending departments to take their own decisions once annual appropriations have been enacted by the legislature and in how actively they monitor departmental management. In some countries, the practices, as described below, are changing as new financial management systems are developed.

Australia. Once Parliament approves the level of programme expenditure, the authority to spend is delegated to spending agencies, with the Department of Finance having only an accounting role. In addition, the Australian government is devolving more responsibility from the centre to spending agencies, by reducing the

number of separate line items, especially for administrative expenditure, in the appropriations sought from Parliament. This enables each spending agency to develop devolution of responsibility to its managers. The *quid pro quo* for the consolidated appropriations for administrative expenses was a strict cash limit on these appropriations.

These arrangements are backed by reliable, up-to-date information on actual spending. The Department of Finance provides a computerised bill paying and accounting service for all departments. Department of Finance officials can access it to a certain level of detail for monitoring information, while each department specifies its requirements from the system for its own monitoring and management purposes. Information can be extracted daily if necessary. The normal arrangement is that the Department of Finance compares monthly spending against profiles prepared by spending departments, and reports on significant variations to the Finance Minister. A tabulation of actual outlays and receipts compared with budget estimates for the whole year is published monthly.

If a department requires supplementation to any of its appropriations to cover unforeseen increases in expenditure, then it is requested to offer, to the maximum extent practicable, savings in other areas.

Belgium. Within the Ministry of Finance, the Budget Department is responsible for expenditure control and participates actively in budget preparation. Some Budget Department staff – Finance Inspectors – are located in spending ministries and provide judgement, in advance, on the advisability, regularity and legality of spending. The Budget Department also has controllers in each ministry to ensure the availability of appropriation credits and the correct charging of expenditure. These controllers draw attention to all irregular use of appropriations.

Each ministry can commit funds within the limits of its budget approved by Parliament. The government does not have the authority to reduce an appropriation, but it can block access by a ministry to an existing appropriation. In urgent cases, the Council of Ministers can authorise spending where existing appropriations are insufficient or do not exist. These decisions must subsequently be ratified by Parliament. The government can approve modifications and transfers within a budget "article".

During the first quarter of the fiscal year, ministries are required to update budget data and prepare a report on the most important changes.

Canada. The spending departments cannot switch expenditures between Parliamentary votes, but have the authority to reallocate expenditure across activities within a vote. These delegated authorities are subject to certain restrictions, such as on the use of funds for salary purposes and essential capital. The former cannot be increased and the latter cannot be decreased by discretionary departmental actions.

The budgetary system prescribes annual reviews of departmental multi-year operational plans which entail input and activity levels of scrutiny. There are no provisions for spending departments to report on actual expenditures to the budget office unless a department submits a request for supplementary appropriations, at which time resource limits and the use of resources are analysed to determine whether the request will be granted.

In certain cases, allotments (i.e. portions of a vote) can be frozen by the Treasury Board, even though appropriations have been voted. Usually, conditions are attached to any subsequent use of these funds.

Denmark. When Parliament votes an appropriation, it delegates the authority to spend to the Minister concerned. Recent reforms have increased the managerial responsibility of each spending department and reduced the number of detailed items for which specific Finance Ministry and Parliamentary approval is required. The Finance Ministry runs a computerised paying and accounting service from which monthly data on payments are drawn. However there is no *ex ante* central control of the payment profile over the course of a year. Most personal benefit payments, such as social security, etc., are made by local governments and reported quarterly for reimbursement. The formal monitoring arrangement introduced in 1984 is that each ministry has to present a comprehensive report to the Finance Ministry three times a year on how its actual spending is conforming to – or deviating from – its agreed total spending target or "frame." If overruns are envisaged, the responsible Minister is required to provide, in these reports, proposals for means to offset such overrun, including possibly legislative change proposals. In practice, contacts between the Finance Ministry and spending departments are continuous and the need for and scope of remedial action is discussed as necessary.

Finland. A formal system for short-term cash management has been in use since the early 1960s. It is used both in planning cash management operations and for identifying when and where deviations need correcting or offsetting by policy measures. Before the start of the financial year each ministry provides profiles of the expected monthly pattern of its disbursements. The centralised accounting system provides monthly reports on actual spending which the Finance Ministry compares with these profiles. There is also a daily cash management system permitting very tight management of short-term cash flow, if necessary.

France. The Finance Ministry maintains detailed control over spending. When the budget is prepared, each ministry negotiates a detailed breakdown of the 'ceiling' allocated to it for new and recurrent operations. A relatively senior member of the Finance Ministry is located in each spending ministry. While the spending ministry is responsible in an accounting sense for the propriety of its spending, approval of this financial controller is also required before any payment can be

made. The Finance Ministry thus maintains a running control, separate from the subsequent examination by the external auditors, la Cour des Comptes.

Prime importance is attached to the problems of financing expenditure. The Finance Ministry may intervene at any time in the financial year to cancel credits or alter the rate at which they may be spent. This is done under administrative procedures not requiring specific parliamentary authorisation. A Supplementary Finance Act may also be used to delete appropriations (and create new revenues).

Germany. A department's appropriation is specified in great detail in the budget law and apart from specially marked expenditures there is no departmental authority to transfer expenditure from one appropriation item to another. All payments connected with the Federal budget are made through 16 regional financial offices run by the Finance Ministry which thus has sole responsibility for maintaining records and preparing the annual accounts for each spending ministry. These offices, whose operations are highly computerised, provide monthly analyses of actual expenditure to the Finance Ministry, which also obtains reports from spending departments of probable financial needs in the next three months. The execution of the budget is thus under constant monitoring and control and the forward projections are an important input to cash flow forecasts.

When expenditure is likely to exceed the authorised total, the Federal Finance Minister may make commitments or expenditures subject to his approval by blocks on expenditure, after having consulted the competent Federal Ministers. (Last used as a precautionary measure for the planned 1980 supplementary budget.) The Minister of Finance (MF) can under certain conditions (if the need for additional expenditure is unforeseen and unavoidable) authorise excess and/or extrabudgetary expenditure, although this only applies where owing to the urgency of the additional expenditure a supplementary budget cannot be enacted in time or where Parliament has already waived the requirement for a supplementary budget in the Budget Law (namely in cases where the additional expenditure does not exceed DM 10 million or where it arises from a legally binding commitment). In periods of retrenchment policy with relatively low expenditure ceilings, this happens quite often. Twenty to fifty cases of more than 10 million DM a year is quite normal.

Not for budgetary control reasons, but for considerations regarding overall economic development, the Government may apply the provisions of the Law to Promote Economic Stability and Growth (1967). In the event of a substantial decline in general economic activity, the Government may decide to authorise additional expenditure. Additional expenditure to counter an economic recession (Konjunkturprogramme) can be authorised by a simplified procedure without the need for a long drawn-out supplementary budget. The MF is authorised by law to raise credits up

to DM 5 billion in excess of the provisions of the budget as adopted taxation rates can also be decreased. Such economic programmes are prepared by the Government and require the consent of the Federal Parliament (last used 1975, as their effectiveness has come under question). In order to avoid an overheating of the economy, MF can block expenditure and the entering into commitment involving expenditure in future years (Konjunktursperre) as well as increase personal and corporate income tax rates or reduce depreciation allowances. Apart from this, the Government may with the consent of the Federal Cabinet limit borrowing by the Federation, the Länder and the local authorities. It was last used in 1971.

Parliament is informed about all important departures from the budget plan quarterly and about excess and extrabudgetary expenditures.

Greece. The Minister of Finance has the authority to regulate cash out-flows by prohibiting Ministries from spending more than a certain percentage of total annual appropriations each month. Unspent balances lapse at year-end, and are not transferred to the next year's budget.

Ireland. Public expenditures may only be undertaken with the authority of Parliament given in either the annual Appropriation Act or in specific enabling legislation. In addition they require the sanction of the Minister for Finance which may either be specific (for once-off expenditures) or delegated.

In practice, authority for expenditure on continuing current expenditure programmes, which constitute the vast bulk of expenditure, is delegated to spending Ministries subject to approved specific conditions and regulations governing their operation. Spending under delegated authority may not, however, exceed overall cash limits specified for Ministries in the annual supply estimates. Similarly, in relation to capital expenditure, authority for expenditure on established programmes such as public housing, hospitals, roads, schools has been delegated to Departments within the overall parameters and targets for the programme previously agreed with the Department of Finance. For certain major projects within such programmes, however, and for all major once-off public sector capital projects, specific Finance authority for the expenditure must be secured. Expenditure not having the sanction of the Minister for Finance cannot be charged against money voted by Parliament. If spending Departments enter into commitments which do not have this authority, sanction may be withheld if the Department of Finance determines that the commitments ought not to have been incurred.

As noted, the initial cash appropriation for each department is now regarded as a cash limit though in some cases, such as unemployment costs, the Ministry of Finance will put a supplementary estimate to Parliament. Each department provides a profile of monthly expenditure (capital and current) at the start of each year and, once agreed, this profile is used, in effect, as a

set of monthly cash limits. A department can spend more in a month only with the express approval of the Finance Minister. Savings in a month cannot normally be carried forward and a department is required to offset an approved excess in a given month by savings in the remaining months of the year.

Each department has appointed an Expenditure Control Liaison Officer to oversee the system and be the focal point of contact with the Finance Ministry. During the year, each department reports monthly its actual and expected spending with explanations of variations from profile. From the fourth month of the financial year, a Monthly Budget Trends Report (expenditures and revenues) is submitted to the Government; by mid-year the Government is usually able to assess the need for any remedial action.

Italy. Parliament approves two limits on every expenditure item each year: a limit on commitments and a limit on cash payments. The budget office, and indeed the government, does not have any power to withhold or block the release of funds previously approved by Parliament, unless specific Parliamentary approval is first obtained. The Minister of the Treasury presents a statement on actual spending to Parliament every three months. Action is in hand to develop monitoring and 'early warning' systems to gather information, throughout the year, about management, cash-flow estimates, interim results etc. In 1985, Italy implemented a "Trésorerie unique", which requires that all funds of the enlarged public sector, not simply the State, be held and managed centrally. This system was introduced for a number of reasons, including: to permit the State to finance part of its needs with the liquidity of public organisms; to avoid inopportune demands on financial markets in order to protect the needs of the productive sector; and to avoid that the State budget pays sums destined to be deposited in bank accounts by other elements of the public sector. This system is managed so as to ensure these other public organisms have full and immediate access to their resources as required.

Japan. To control the flow of spending, each department is required to obtain the approval of the Finance Minister to its plans for incurring liabilities (contracts, etc.). In addition detailed profiles of expected disbursements each financial quarter, by each disbursing officer in a department, have to be approved by the Finance Minister before the beginning of each quarter. Payments can then be made in line with these plans. The approval of the Finance Minister is needed before a spending department may transfer money during the year from one line item of its detailed budget to another. The Finance Minister can also call for ad hoc reports during the year about actual events and prospects so that it can provide any guidance or recommend corrective action that may seem necessary.

Netherlands. The Finance Ministry delegates a good deal of authority to individual spending ministries but it retains the right to specify the budget items for which

departments may not enter into liabilities before the budget office of the Finance Ministry has given its permission. During the year, departments operate under the 'rules governing the stringent budget policy', revised in 1979 and 1986. Their main aim is to keep spending within the intended totals and also to protect the multi-year estimates for forward years. The rules prescribe how overspending is to be compensated by savings and how windfall savings may, and may not, be used.

During the year, monthly discussions are held between the Finance Ministry and each spending ministry about possible over- and under-spending. In many instances, problems are solved without Parliamentary involvement by shifting balances between sub-items, i.e. with no effect on the vote; or under strict conditions and to a limited extent by shifting from one vote to another. A mid-year 'Spring Memorandum' is presented to Parliament by the Government, offering a review of developments and proposing any necessary corrective action.

Norway. The Minister of Finance has been granted authority by Parliament to approve changes to the budget during the fiscal year whether for new items or cost adjustments to existing programmes. The value of any one change cannot exceed 1 million kroner, but there is no limit on the total value of all changes. Similarly, changes valued at over 1 million kroner each up to about 3 or 4 million kroner, may be approved by the government (i.e. Cabinet) without prior reference to Parliament. Parliament receives a technical report at year-end summarising the value of such changes.

The Budget Department is relatively uninvolved in the implementation stage of budgeting. Each Ministry determines the extent to which it will subject its subordinate agencies to some apportionment or blocking of appropriations. Ministries generally require regularly updated forecasts from their agencies regarding total spending for the year. The Ministry of Finance receives bi-monthly reports from agencies on funds actually spent.

Portugal. Staff of the Director General of Public Accounts in the Ministry of Finance and the Plan are located in each ministry. They advise in budget preparation and have a key role in ensuring that actual spending conforms precisely to the rules of public accounting. The Government has some power to check planned spending during the year. By decree law it can prohibit the use of one or more twelfths of appropriations previously approved by Parliament for certain purposes. Work is in hand to develop modern cost accounting and monitoring procedures.

In practice, actual spending has tended to exceed the initial budget because, for example, of the need to finance pay increases or higher than anticipated interest charges.

Spain. After appropriations have been voted, the spending departments must submit monthly information on current and capital expenditures and projected expenditure. The Ministry of Finance may intervene to

control the level of expenditure in order to maintain financial balance or for purposes of economic policy.

Sweden. Agencies, charged with carrying out the policies developed by the ministries, account for virtually all the Government's spending other than transfers to other levels of government. In the past, an agency's use of funds has been closely regulated by annual authorisations prepared jointly by the Budget Office of the Finance Ministry and the relevant ministry and issued by the latter. Two general aims of recent years have been to reduce the degree of detail in this control and to pay grants to organisations only in instalments. Appropriations are now disbursed quarterly in advance or more frequently: previously the whole grant had often been paid out at the beginning of the year. The extent of detailed control may vary amongst agencies, but generally there is substantial scope for an agency to take its own management decisions.

The agencies' use of funds is monitored continuously by external auditing bodies and their central body, the National Audit Bureau, provides the Government with regular assessments of how the budget is developing against plans. This information is used both to assess the government's borrowing needs month by month and to check forecasted budget outcome against appropriated funds. There are links between this cash flow monitoring and the extensive work on evaluation also carried out by the National Audit Office and other bodies.

Turkey. The Minister of Finance can regulate spending throughout the fiscal year. Shortly after the approval of the budget by Parliament, the Finance Ministry issues a circular to all agencies stating the main principles governing commitments of funds and the maximum percentage of appropriations to be released within the first 6 months of the fiscal year. A second circular is usually issued in late June. The principles and percentages of this apportionment of funds depend on general economic conditions; recent trends in expenditures and revenues; the need to spread current expenditure throughout the year; and the nature of the activities concerned. In addition, there is a separate control on the rate of cash outlays. The Ministry of Finance also exercises a control ("contract visas") on commitments in current and future years. The types of expenditure subject to this control, and the limits of commitment are established in the Budget Act.

If there is a need to achieve savings, the Prime Minister or Minister of Finance may issue general guidelines regarding spending on specified objects. The annual "Decree about the Implementation Coordination and Surveillance of the Annual Programme" comprises a procedure by which investment programmes can be revised, if necessary, and appropriations can be reallocated accordingly.

United Kingdom. When Parliament votes an appropriation it delegates to the Treasury authority to sanction payments from the vote in question. The Treasury in turn delegates authority to the spending departments in respect of most routine expenditures.

Specific Treasury approval is required for significant new proposals and individual projects above agreed financial limits. At the start of the financial year, each department provides profiles of its expected spending in some detail. They report actual spending through the Paymaster General's Office. That Office provides reports each month to the Treasury with copies to the spending department. The Treasury's main uses of this monitoring information are for managing funding and as an input to its regular assessments of trends in total public expenditure. Care is taken not to dilute the responsibilities of individual spending departments to stay within the cash limits on most annual appropriations and to give early warning of likely variations in demand-led spending from agreed profiles. Social security expenditure, because of its size and the difficulty of forecasting it even in the short-term, is subject to special monitoring arrangements, whether such expenditure is financed from the National Insurance Fund or from annual appropriations. Cuts in-year to approved plans are avoided if at all possible, though departments may be expected to absorb cost overruns in elements of the budget, thus possibly necessitating cutbacks in other elements.

United States. Unlike other countries, the authorities provided in the United States budget are not directly concerned with outlays or cash spending. Instead, the budget provides the authority to enter into obligations that will result in immediate or future years' outlays. Obligations cover: the current liabilities for salaries, wages and interest; agreements to make loans; contracts for the purchases of office space, building and land; and other arrangements requiring the eventual payment of money. Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior year budget authority and in part from budget authority provided for the year in which the money is actually spent.

When the budget is approved by Congress, the Director of the Office of Management and Budget (OMB) distributes obligatory authority arising from appropriations, and other budgetary resources, to each agency by time periods or by activities to ensure their effective use and minimise the need for additional appropriations. The distribution is called an apportionment.

The basic units for control are the approximately 1,100 budget accounts. The Congress may limit executive discretion in some areas to a much greater level of detail, or expect to be informed if an agency wants to change the particular allocation of funds cited in justifying a proposal to committees of the Congress. Conversely, Congress may allow general or explicit transfers between budget accounts, thus increasing departmental discretion.

Once obligatory authority is apportioned, the responsibility for further control rests with the spending agency and there are severe legal sanctions for any

Federal officer who over-obligates the amounts available in the account or the apportionment. The primary control is thus over entering into obligations: there is no direct control over cash outlays apart from normal audit controls.

Quarterly reports on obligations and outlays against the apportionment are submitted by spending agencies to the OMB. In addition, detailed reports on the use of funds are prepared monthly by departments for the Treasury and the OMB. The Treasury Department publishes a monthly and an annual report showing monthly and year-to-date information on receipts, outlays, surplus or deficit, debt and other factors affecting the financial condition of the Federal Government. The OMB uses the monthly reports from spending agencies to track use of obligational authority against planned use; it also publishes one or more updates each year on total estimated receipts and outlays.

D. MONITORING AND CONTROLLING COMMITMENTS

This section looks behind the cash budget to examine briefly the nature and extent of monitoring and control exercised over commitments. The use of information about or controls over commitments in support of cash spending works in two directions. Making sure that spending stays within a cash limit for a financial year (or shorter accounting period) implies a limit on commitments likely to mature in it. To the extent that the budget office may have to require cuts in some areas to offset – or help offset – unavoidable overruns in others, they want spending agencies to have as few commitments, and hence as much short-term cash flexibility, as possible. At the same time, an understanding that a spending manager can count on a minimum level of spending in later years, to the extent of making multi-year commitments or contracts up to such a limit, may be a real help to his making effective use of resources.

Chapter 3 has described how large proportions of government expenditure are based on primary legislation or other commitments that may be difficult to alter. Some other expenditures may be more flexible in principle but in practice can be changed only at the margin in any short period. For example, where it may be possible to reduce or eliminate a function, it is likely to be costly to dismiss the affected civil servants or to retire them prematurely. A ban on recruitment, which is likely to cause problems for personnel management in the longer-term, can affect only a small fraction of the pay bill while it continues.

Even with no external controls or reporting requirements to meet, a department that spends a significant part of its budget on procurement is likely to maintain information about its outstanding commitments for its

own management purposes. Generally, each spending manager wants freedom to make forward commitments to the extent he judges best for his programme. More senior managers in a department, who may be faced with the possible need to make savings in one area to offset extra spending in another, will want to limit this freedom. Even more so, central cash managers and budget officials may be loath to see the limited remaining short-term flexibility of spending eroded further.

Arrangements to limit forward commitments and thus retain some flexibility may be informal or formal. Section C of this chapter noted the exceptional practices in the *United States* and *Italy*. In the *United States*, the Congress approves the Federal budget in terms of the authority to commit or obligate, and does not make cash appropriations. In some cases, notably for some multi-year defence projects, it gives authority for the whole project rather than for each year's work in turn. A change in budget authority in any one year may have an effect on obligations for two or more years, and may affect outlays for an even longer period. Monthly cash outlays are monitored and data published, but no direct control over cash flow is exercised. In *Italy*, the budget used to be based on authorities to undertake commitments. Large outstanding liabilities developed. In consequence, there are now legislative limits on new commitments and on cash outlays in the year covered by the budget.

In 1976, the *Australian* Government decided to extend formal commitment processes essentially for reasons of improved budget management. Departments are required to lodge their forward obligation estimates at the time of lodging their budget bids. At the same time as Cabinet examines budget proposals for the year ahead, they also determine limits on the undischarged obligations which departments may have outstanding at the end of the financial year. Departments must adhere to these limits, however variations can be approved by the Minister for Finance or his delegate. This system of limiting obligations is not an attempt to plan all future expenditure but rather to limit the extent to which future expenditure is pre-empted. The obligation system is nevertheless relatively wide and includes: legislative undertakings; signing of contracts for buildings, supplies, etc.; other agreements or undertakings which, while they may not be legally enforceable, will oblige the Government to the payment of monies. Certain categories of expenditure, e.g. salaries, are generally exempted from the system.

Some other countries control or monitor the rate at which new commitments are made – for example, new contracts are placed. In the *Netherlands*, revenues and expenditures have been budgeted and accounted for on a cash basis since the Government Account Act 1976. The budget bill presented to Parliament thus shows for each line-item the planned cash outlay. However, for some line-items, a separate column shows a maximum of any new commitments to be entered which will lead to

outlays in later years. The indicated maximum amount cannot be exceeded without Parliamentary approval. In addition, the Minister of the Budget may determine certain line-items for which any new commitments require his approval in advance. Commitments generate outlays in later years which are incorporated in the multi-year expenditure projections.

In *Finland*, the traditional in-advance financial control of commitments has gradually been relaxed for routine and financially minor matters. It presently covers only major expenditure commitments, which must be approved by the Finance Committee of Cabinet (or by the Minister of Finance for commitments of intermediate magnitude) even if the necessary funds have been appropriated by Parliament. The same process is also used for discussion of politically or administratively important matters, even in cases not reaching the screening levels for financial reasons. In addition, steps have been taken to gradually diminish the widespread use of "reservations appropriations" under which funds are transferable up to three years following the budget year which provided the appropriation. These are being replaced by a system whereby commitment authorisations in a given year must be financed in accordance with a cash outlays plan, for the current and future years, which must be presented with the request for commitment authority.

In *Germany*, similar to the Australian case, departments are required to lodge their forward obligations' estimates together with their budget bids. Action leading to future years' outlays can generally be taken only if specifically authorised in the budget, in which case commitments can be made for future years up to the levels previously shown in the budget plan. Corresponding future cash outlays are included in the medium term Financial Plan. A system to monitor the actual use made of authorised future commitments is being developed. Future commitments may be specific as to the future year to which they apply, or may be set out in a block "for future years", in which case, they can be used only with the agreement of the Minister of Finance. Specific authorisation is not required for future commitments from entitlement programmes, nor current payments (i.e. for wages, salaries and other personnel costs and current expenditures on goods and services including certain rent, leasehold and leasing contracts). Deviations from an authorised future commitment are possible with the consent of the Minister of Finance, who may also act to block the use of previously approved commitments in order to control or limit future spending.

In *Ireland* capital expenditure commitments for succeeding years are limited to 65 per cent of the budget year's allocation. This figure may, however, be varied

with the specific approval of the Minister for Finance. The admissible level of future commitments is determined so as to give programme managers reasonable latitude in entering into multi-year contracts while at the same time leaving adequate flexibility for control purposes. All Departments and State bodies under their aegis report each month on the level of (i) contractual commitments and (ii) other quasi-contractual commitments entered into for the following year.

In *Japan*, as noted above, with regard to those concerned with public works' expenditures and other expenditures designated by the Minister of Finance, the heads of the respective Ministries and agencies prepare plans for executing the Obligations (meaning contracts and other acts which are the causes of the disbursements) of the Expenditure Budget, Continued Expense and Contract Authorisation, and forward them to the Minister of Finance to obtain his approval at the start of the fiscal year.

One obvious application of improved knowledge of commitments already made, or forthcoming, is to improve forecasts of future cash spending incorporated in multi-year plans and projections. A more ambitious use is to control future cash flow by regulating the rate at which commitments are made, as in the Australian and German examples described above. Commitment management can also be used to devise the optimal mix and sequence of projects, for example within a road construction programme, to make best use of cash totals planned for several years ahead.

The spending process for some programmes can be thought of as having four main phases:

1. Application from the private sector (e.g. in the case of certain grant or loan programmes) or initial design (e.g. in the case of a construction project);
2. Administrative or Ministerial approval;
3. The entering into commitments (e.g. contracts for construction); and,
4. Actual payment in one sum or by instalments.

Analysis of actual cases can yield the typical intervals between the phases and the variability of individual cases from the average. There may be enough stability in these relationships to warrant the development of formal mathematical models to help managers both to understand and, if necessary, to manipulate cash requirements. The *United Kingdom* is an example of a country where such investigations are encouraged. Efforts to improve departmental management, such as the initiatives referred to in the next Chapter, with their emphasis on giving individual managers more responsibility for the good conduct of their programmes, seem bound to promote such investigations.

TOWARDS IMPROVED PRODUCTIVITY AND EFFECTIVENESS

A. INTRODUCTION

All the countries in the study are seeking how best to promote economy, efficiency and effectiveness in their spending programmes. These goals are not new, of course, but are particularly important in a climate of continuing expenditure restraint. They are reinforced, in a number of countries, by a reassessment and realignment of the role of the public sector and by examination of the continued relevance or priority of programmes in light of changed circumstances. This chapter offers a preliminary and selective sketch - both as to countries surveyed and the initiatives addressed - of some of the practices employed to ensure that questions involving the role, relevance, restraint, and responsiveness of government programmes are addressed. The chapter also sketches initiatives in some countries to improve financial management in departments and agencies, and to increase flexibility in programme management by reducing the constraints implicit in an annual budget.

B. EFFICIENCY AND EFFECTIVENESS REVIEWS

The main aim of efficiency and effectiveness reviews is to promote a continual search for better value for money and thus make it less painful to constrain spending totals. The task in review procedures is to develop useful information and analysis of how resources are used in particular programmes and, more importantly, what is achieved with these resources. The aim is to develop recommendations, possibly with alternatives, whereby Ministers can then clarify and rank their priorities better and whereby public servants are stimulated to be more inventive and constructive in their reactions to demands for economy or cuts. The use of review procedures links with the renewed interest in departmental and programme level financial management reviewed in the next section of this chapter. Both developments are part of a search for more feasible, manageable and operationally useful forms of the rational and sophisticated control and management

systems elaborated in the 1960s under the rubric of planning programming and budgeting and zero-based budgeting.

The focus of a review exercise may be directed at any issue from the basic aim of a policy, or the appropriateness of direct government involvement, to the precise way in which a public sector programme is administered. The nature or objectives of a review may affect the choice of the practices to be followed in conducting the review.

In some countries use is being made of direct private sector input to reviews, by involving businessmen, or management consultants, or others from outside the government domain. Some countries are also promoting more exchanges of staff between the public service and industrial, commercial and financial firms to broaden experience and understanding. By such means, understanding is sought of the extent to which typical private sector management and performance assessment methods can be adapted and applied in the public service.

a) *Efficiency Reviews*

A review of the efficiency of administration or operations is most likely to be carried out by the spending department concerned, though the need for it may have been suggested by those in the budget office concerned with that department. The budget office may make a specific suggestion of an area for improvement or it may encourage innovation in the spending department by the means of simply reducing the budget provided to finance operations.

In Sweden, for example, for several years the Finance Ministry assumed an annual gain of two per cent in productivity in setting the budgets of executive agencies: their appropriations, having been adjusted for increases in prices and wage rates, were cut by 2 per cent a year. This has been modified to a multi-year target, in which 5 per cent has to be saved by the third year, by such means as the agency itself may propose. These target reductions apply to administrative costs only, which account for about 10 to 15 per cent of total spending. Most instructions on how to use appropriations for administrative costs have been removed. Only the amount that can be spent on salaries is separately restricted.

In *Canada* since 1984-85 most departments' operating budgets have been increased for wage rate changes but no adjustment has been made for other increased prices. This denial of inflation adjustments, during a period in which general price increases averaged about 4 or 5 per cent annually, forced departments to find productivity or cost-saving measures if reductions in operations and levels of service were to be avoided.

Most governments now promote administrative efficiency as a matter of policy. In *Japan*, the Second Provisional Commission for Administrative Reform operated in 1981-1983 and recommended, as follows: "It is particularly necessary to drastically simplify the government administration which has expanded into a huge scale since the times of rapid economic growth. The review and simplification of the areas of administrative responsibility will make it possible for the administration to respond to new demands while keeping down the costs to the people and incrementing the vitality of the private sector. There is also a need to review areas which are essentially in the realm of public administration to make them comprehensive, efficient and effective with the minimum costs to meet the changes of the times."

In *Australia*, it has recently been decided to implement a form of programme budgeting in all Commonwealth departments and budget-dependent agencies over the next 2 to 3 years. The primary aim is to enable Parliament, central agencies and spending agencies to focus more attention on the efficiency and effectiveness of government spending. This development is underpinned by the Australian Government's Financial Management Improvement Programme which is taken up later in this chapter.

In 1982, the President of the *United States* established a private commission known as the President's Private Sector Survey on Cost Control led by the head of a major private sector corporation. Its remit was to recommend ways of reducing the cost of government and making it more efficient. In early 1986 the President initiated a programme to improve productivity by 20 per cent by 1992 in selected high-priority functions. Departments and agencies will set their own productivity improvement goals consistent with the overall goal of 20 per cent improvement. They will examine present functions and select those activities which lend themselves to measurement and offer major opportunities for significant improvements. The agencies will determine what changes are best suited to achieving efficiency gains. Finally, they will establish a performance baseline drawn from 1985 data, and measure the change in productivity from year to year. Annually each agency will submit its productivity plans to the Office of Management and Budget (OMB), as part of the agency's overall management improvement plan. The plans will include targets and methods for improvement, specific goals, measures to be used, and methods of encouraging employee involvement. OMB will report to the President and Congress each year on government-

wide productivity gains, both accomplished and planned.

In the *United Kingdom*, the new Prime Minister in 1979 appointed a leading businessman as her Adviser on Efficiency with a small Efficiency Unit located in the Prime Minister's Office to promote scrutinies of selected areas by individual departments.

Countries have found a need to follow up actively the results of studies to ensure that agreed recommendations are implemented and savings made. Even if not directly involved in the choice of area to be investigated, it seems clear that those concerned in the budget office should be aware of a study and its outcome. They can then follow it up in their annual budget negotiations with the department concerned.

b) Policy and Effectiveness Reviews

Policy reviews, whether of the aim of the policy itself or its form and effectiveness, are likely to involve staff of the budget office as well as those of the responsible department, and perhaps other interested departments.

The time and effort needed to make a useful review varies enormously, depending on the programme area and the questions posed, but there is always a need to make sure a review does not drift into taking longer than it need. Because of this variety, it seems generally the case that review procedures are not tightly tied to the procedures and timetables of multi-year planning or annual budgeting, though the need for a review may often be identified in the course of these exercises. It may also be desirable for the results of the reviews to be considered in the context of budget formulation in order that relative policy and expenditure priorities may be assessed.

An agency active in efficiency and effectiveness reviews in many countries is the government's external auditor. In a number of the countries in the study there is now a heavy emphasis in value for money or "comprehensive" audit alongside certification or compliance audit. In 1983 the *Australian Audit Office* formally adopted a "comprehensive auditing" approach. This was a further stage in the development of auditing systems with an enhanced emphasis on economy and efficiency. The comprehensive auditing approach involves the planning, programming and conduct of a cycle of audits that examine and assess the legal compliance, administrative compliance, financial regularity, economy and efficiency of the operations of the auditees. Over the cycle, covering a period of years, the range of audits conducted should embrace all those aspects. The efficiency audit element of comprehensive auditing involves an evaluation of the effectiveness of the administrative actions and decisions taken by management in achieving programme objectives within the policy guidelines and legislative framework provided by the Government. The emphasis is on auditing of procedures and methods, and in assessing whether the taking, or avoidance, of

decisions has followed adequate consideration and been properly documented. The scope of audits embracing efficiency issues extends to examining and reporting on whether the audited entity has administrative machinery in place to enable it to advise the Government whether the policy is meeting objectives.

In *Canada*, the Auditor General (the Federal Parliament's Auditor) conducts compliance audits and also has the power to ascertain whether departments have the systems needed to provide value for money evaluations. In the *Netherlands*, the external auditor recently showed a profound interest in value for money audit; in addition, private consultants have led to the implementation of policy suggestions in this area. In the *United Kingdom*, the National Audit Office has said that half its work is now value for money audit. In the *United States*, and similarly in *Germany*, the General Accounting Office conducts audits and evaluations of programmes, activities and financial operations of federal departments and agencies and their contractors. These reviews address questions as to how resources are managed, controlled and accounted for, how economically programmes are carried out, and whether they are meeting intended objectives.

The following paragraphs briefly describe some aspects of policy or effectiveness reviews in *Canada*, *Ireland*, the *Netherlands*, *Sweden* and the *United Kingdom*.

Canada. A Ministerial Task Force on Program Review, led by the Deputy Prime Minister, was formed in September 1984 to review government programmes on a portfolio-by-portfolio basis. It did not conduct policy reviews per se, but was charged to produce a profile of government programmes in each department and across government which could lead to simpler, more understandable programmes and programme delivery, more accessible to their clientele, and where decision-making is decentralised as far as possible to those in direct contact with client groups. The programme review also was intended to be comprehensive, covering statutory and non-statutory programmes.

Altogether, 19 study teams analysed nearly 1,000 programmes and services of the federal government. Study teams consisted of a mixture of experts drawn from both federal and provincial governments, and the private sector. In addition, a Private Sector Advisory Committee, distinct from the Ministerial Task Force, discussed the findings with members of each study team during the review phase.

The analysis and recommendations of the study teams were submitted to Task Force Ministers; those recommendations endorsed by the Ministerial Task Force were then submitted to the Cabinet's Planning and Priorities Committee, chaired by the Prime Minister, for decision as to the further action or programme changes desired.

The government's intention was not to create another centralised bureaucracy and all study teams were disbanded once their reports had been submitted. A

small core, however, remained to track the progress of recommendations through the decision-making process and to ensure that spending departments are aware of implementation requirements.

Ireland. In March 1985, a Committee of Cabinet Ministers was appointed by the Government to review existing expenditure programmes with a view to determining:

- a) What programmes continued to be useful in terms of serving the objectives for which they were initiated;
- b) Whether the implementation of such programmes could be made more efficient in terms of the cost to the State; and
- c) Whether existing structures made the best use of available resources or whether a more effective structure could be put in place.

The primary objective of the review initiative is to make recommendations that will lead to expenditure savings from the cancellation of out-moded programmes or from the provision of more efficient and effective programmes. The reviews are comprehensive in nature and are carried out by review teams drawn from the Departments of Finance and the Public Service and the department under whose aegis the programme under review falls. Each programme is reviewed in terms of objectives, priority, means of implementation, benefits, financial implications, etc., and the review team reports within a specified time scale depending on the nature of the programme involved.

Netherlands. The evolution of the Reconsiderations Procedure in the Netherlands illustrates some of the practical problems in achieving effective review procedures. The 1980 Budget Memorandum to Parliament identified the need for a "second circuit which is independent of the budget preparations" to reappraise government responsibilities.

Accordingly, in January 1981, a new and wide-ranging policy review programme was adopted to improve the information base for priority setting at an overall level as well as for decisions about individual policy areas. It was called the Reconsiderations Procedure. The methodology drew on previous experience with programme budgeting and has been described as a zero-base budgeting approach, applied selectively. The choice of subject areas is reported to Parliament (which may suggest others) and the final report of each review is submitted to Parliament before the Government decides how to react to its recommendations.

The Procedure is steered by a Ministerial Commission, comprising the Prime Minister, the Vice-Prime Ministers (who represent the parties forming the coalition Government) and the Minister of Finance. Its counterpart at official level is chaired by the Director-General of the Budget in the Finance Ministry. Each project is carried out by a working group set up for the purpose and chaired by the department with lead responsibility for the subject. The Prime Minister's Office and the Budget Directorate are represented on all

the working parties. The Secretariat for all of them and for the Commissions is provided by a special unit in the Budget Directorate. This is intended to ensure a common discipline and rigour in the work of all groups.

The main criteria for selecting areas to review, as formulated anew in April 1983, are the following:

1. The presence of opportunities for efficient mechanisms of allocation for a publicly provided service - privatisation, decentralisation, deregulation, charging of (higher) prices, etc.;
2. Time passed since the last general efficiency review in any institutional context, but from a perspective comparable with that of the Reconsiderations Procedure;
3. Decreased priority of a public service or of its level of provision in the light of changed circumstances or the general policy objectives of the incumbent cabinet;
4. Balanced distribution over the government departments; and
5. Size and growth of expenditures.

Guidelines for conducting reviews - including sets of questions to be tackled - have become a crucial part of the discipline that ensures proper fact finding, fundamental rethinking of policies and radical options for change. Each working party has to suggest 3-4 less costly policy alternatives, including one leading to savings of at least 20 per cent below the level of expenditure projected for four years hence.

At first, the timing of reviews was ad hoc. In April 1983 arrangements were changed to enhance the status of the reviews, partly by linking them to budget processes through a clearly phased timetable. The new arrangements were approved by Cabinet. Suggestions for areas to be reviewed in the next round were to be made by 1st August and the agreed list included in the Budget Memorandum sent to Parliament in September. The working groups were to be set up to start work in January. Each had to report finally before 1st November (there was provision for reporting interim findings). In January the Cabinet was to review the results of the round as a whole and to decide on recommendations best judged outside the budgetary framework. Parliament was to be informed of its conclusions. All other recommendations were to be remitted for decisions in the budget cycle proper for which policy work starts in February when the Minister of Finance proposes budgetary targets to the Council of Ministers (i.e. the Cabinet).

This timetable has been found too rigid. Some reviews can sensibly be completed more quickly, others need more time. In July 1985 some additional procedural modifications were approved by the Cabinet. From now on it will be possible to start reconsideration reviews at any time of the year. This possibility increases the flexibility of the procedure without impairing its efficacy: the rule that all departments have to participate, and that there is an annual check whether a sufficient

number of reviews are being carried out, is maintained. Another modification is that political decision-making about completed studies becomes somewhat more flexible as well: both the responsible Minister(s) and the Minister of Finance can take the initiative and decisions need not be submitted to full Cabinet if no general Cabinet policy is involved and provided the Ministers concerned have reached agreement.

The efficacy of the Reconsiderations Procedure in relation to its primary aim, the provision of realistic retrenchment proposals, has been fairly satisfactory in the first years after its introduction. In the first two years, retrenchment proposals were developed totalling about 16.5 bln. Dfl. (about 5 per cent NNI). Of these proposals about 6.5 bln. (roughly 2 per cent NNI) has been implemented.

There is an impression that, from 1983 onwards, it is harder to acquire co-operation from departments with respect to particular review projects and that, more in particular, constructive efforts to develop realistic retrenchment proposals become scarcer. The number of studies that contain conflicting points of view are increasing. The modifications of July 1985 were partly aimed at the selection of more politically relevant areas for review. It is hoped that in this manner political pressure can be used more adequately in order to stimulate co-operative attitudes inside and outside the government apparatus.

Sweden. In this country the use of parliamentary or expert committees of enquiry to carry out policy reviews is long established.

In the past, the terms of reference for such enquiries have sometimes been too general and led to proposals for costly reforms. Nowadays, they are more constrained: all reports have to include a thorough account of the economic consequences for central government, local authorities and the business sector of their proposals. Some recent committees, especially those reviewing the work of government agencies, have been told to include a "tight alternative" in their report, meaning a 15 to 30 per cent contraction of an activity.

To supplement this type of review, the Government set up in 1981 an Expert Group for Studies in Public Finance. The Budget Director in the Finance Ministry is one of the Members. Most of its members are, or have been, connected with the Finance Ministry. The group also includes an academic economist and representatives of regional and local governments. The Group reports formally to the Finance Minister but its reports are widely distributed and used in many quarters. The Group meets about six times a year to commission studies and oversee their progress. Topics for research and review may be either policy or its administration, the deadlines may be relatively tight (3 or 4 months), and if new initiatives are proposed then "financing" must also be proposed via offsets in the same sectoral area.

In Sweden's experience, it is important to create a climate which encourages the participation of ministries and agencies in reviews and a routine that ensures

effective links with budget work. Like the Netherlands, the aim is for effective interaction between review practices and the budget cycle, rather than integration in a single process.

United Kingdom. Policy reviews are a well established practice. There is no set procedure for conducting a review; each requires separate decisions on its organisation, objectives, resources and implementation. Policy reviews range from a small scrutiny-type team, through joint Treasury/spending department efforts, to formal interdepartmental committees. In some cases a review team may be led by a Minister, as with the comprehensive review of elements of the social security system conducted in 1984-85. In most cases Treasury involvement of some kind usually takes place, although there have been reviews with no Treasury participation which have still been successful. In all cases, though, Treasury will seek at the very least to influence the terms of reference of a review.

The primary aim of policy reviews is to ensure that over a number of years all areas of spending are reviewed, objectives clarified and targets set. Such reviews have an essential role to play in identifying expenditure savings and in allowing a reassessment of priorities both between and within expenditure programmes.

C. CAMPAIGNS TO IMPROVE FINANCIAL MANAGEMENT

Some countries in the study have launched specific campaigns or initiatives to promote better financial management in individual ministries and executive agencies. The aim of such campaigns is to set radical changes in motion. As more business-like management styles become the way of life, the campaigns as such tend to merge into the on-going work of a department.

Their key features are the adaptation and use of procedures equivalent to corporate planning in an enterprise and of forms of management to match. In all cases, this is taking the form of more decentralised procedures for taking executive decisions and more delegation of such decision taking. To make this work effectively, individual managers need clear objectives (and, at lower levels, clear tasks) coupled with responsibility for good use of the resources provided to each in a delegated budget. There is a need for good information, appropriate skills and expert support. Overall control depends on clear accountability for performance within the organisation.

Each budget holder at each level wants certainty in the annual – or longer-term – sum he agrees to be responsible for and flexibility in how he allocates it between his subordinates.

This fact affects the extent to which a government aims to provide detailed budgets or a block budget to

each main department or main functional area out of what might be thought of as the budget office's block budget of total planned spending. The more autonomy a department or ministerial committee enjoys, in the detailed allocation to its programmes, the less the involvement of the Budget Minister and his staff in how a block is sub-divided. With less involvement, their knowledge is likely to be less, and thus their ability to take balanced views across all departments. On the other hand, the budget office will have more time to focus on key issues if it is less preoccupied with time- and energy-consuming detailed budgeting.

The following paragraphs summarise initiatives in Australia, Canada, Denmark, Ireland, and the United Kingdom.

Australia. This government initiated its Financial Management Improvement Programme (FMIP) in June 1983 in response to recommendations of the "Review of Commonwealth Administration". The programme provides a focus for a range of budgetary and administrative reforms which aim to:

- a) Develop better means of identifying and setting budget priorities;
- b) Focus attention more clearly on the goals and objectives of particular programmes, and the resources they use;
- c) Develop and apply programme management techniques which will improve efficiency and effectiveness in resource use; and
- d) Establish machinery for regular review of programme efficiency and effectiveness.

The FMIP is a two pronged strategy. The first area of reform is aimed, as with the United Kingdom's initiative, at encouraging departments and statutory authorities to focus more on the management of programmes and achievement of programme objectives, and less on compliance with rules and regulations and the control of inputs. As such, it is complementary to the implementation of programme budgeting referred to earlier in this chapter. FMIP is being pursued through:

- a) Encouraging the development of a *corporate management style* whereby the head of the agency and senior executives, in consultation with the Minister: identify agency goals, and strategies to achieve them; and set priorities for resource allocation;
- b) Developing a *programme approach to management* based on a programme structure derived from the agency's goals and embracing all the activities of the agency. The objectives and expected outputs and outcomes of the elements of the programme structure (e.g. programmes, sub-programmes, components, sub-components) should be clearly identified, as should the levels and types of resources allocated to them;
- c) Establishing in all portfolios a systematic approach to *evaluation of programme efficiency and effectiveness*;

- d) Instituting an *organisation structure* which facilitates management on a programme basis, and where responsibility for achieving agreed objectives within resources allocated is devolved to the line managers as far as possible;
- e) Implementing *management information systems* which provide relevant and timely information to managers at all levels to enable them to monitor achievement of objectives, control resource use, and set priorities;
- f) Providing *tailored staff development and training* for senior executives and staff to improve their resource management and general managerial skills.

The second arm of the FMIP strategy, and seen as essential to the success of the above "voluntary" measures, is the development of an institutional and budgetary decision environment which encourages a much greater emphasis on performance by all those involved in public administration. Steps taken include:

- a) Introduction of portfolio programme budgeting;
- b) Consolidation of departmental administrative appropriations to a single line vote. Previously departments had up to 20 separate items defining amounts for administrative expenditure;
- c) Devolution of authority from central agencies to agency heads in respect of: reallocation of funds between notional areas of expenditure in administrative estimates; and establishment control (for other than executive management positions) subject to staff years limits with three broad bands;
- d) Requiring all new expenditure proposals for budget Cabinet to include: a statement of objectives and specification of performance indicators; specification of proposed review mechanisms and timetable;
- e) Liaison with parliamentary committees to encourage their focus on agency programme performance with respect to objectives rather than on programme inputs;
- f) Requiring upgrading of information provided to central agencies and to parliamentary committees; and
- g) Upgrading of central agency financial ledger systems and staff monitoring systems, including moves to direct, on-line, access between these and agency management information systems.

The FMIP is controlled by a steering committee comprising senior officers of the Department of Finance, Transport and Defence and the Public Service Board. It is serviced by two small support units, of about 10 officers each, in the Department of Finance and the Public Service Board, and has an interdepartmental advisory committee comprising some 12 departments.

Canada. Many basic features of the Policy and Expenditure Management System (PEMS) have their

roots in the Program Planning and Budgeting System (PPBS) that was implemented in the late 1960s. PPBS was introduced in response to two sets of concerns: about factors that affected the ability of the government to control its expenditures; and those that affected assessment of the effectiveness of these expenditures in meeting their intended policy objectives. Shortcomings with PPBS, as both a control tool and a mechanism for assessment, soon became apparent. The consideration of individual incremental decisions tended to proceed in the absence of an overall expenditure framework. Objectives also proved to be inadequate for evaluation purposes, in part because they stated broad impacts of programmes and, in part, because many programmes had a multiplicity of objectives.

The adoption of an expenditure growth rule in the mid-1970s placed a ceiling on overall expenditure increases. The growing base of spending for ongoing programmes relative to this ceiling, however, eroded the reserves needed for new priorities. Concerns also emerged that the pattern of expenditures, albeit justified by PPBS criteria, were not in accord with changing government priorities. Although based on many fundamentals of PPBS, PEMS provides for a systematic integration of policy and expenditure management functions, in which incremental bottom-up operational planning is integrated with top-down macro level controls over budget totals. The Budget and annual Estimates result from the iterations between the fiscal and operational planning exercises. In its emphasis on results rather than on objectives, moreover, PEMS helps to overcome a major shortcoming of PPBS by permitting a more systematic analysis of linkages between the resource allocation and performance measurement functions, that is, between programme inputs and outputs.

The operational planning framework (OPF) of each department and agency in the PEM System is based on "planning elements", which are discrete sub-divisions of programmes. Planning elements provide the basis for resource planning in departments and for resource allocation decisions by the Treasury Board. As they conform to the management and control systems of each department, planning elements also identify responsibility centres for purposes of accountability for the efficient utilisation of approved resources.

Operational planning frameworks have formed the basis for meeting long-standing requests from Parliament for more information relating government spending to the achievement of results, thereby rendering an improved accountability to Parliament of "value for money" resulting from the expenditure of public funds. The Estimates documents now consist of three parts: Part I, *The Government Expenditure Plan*, establishes the basis of the government's accountability to Parliament for the level of government spending and its distribution by policy sector or envelope; the detailed *Main Estimates* (Part II) are intended to support the annual Appropriation Acts. In addition, a series of "Part

III's", *Departmental Expenditure Plans*, describes in detail each programme of a department in terms of its objectives, the manner in which activities contribute to objectives and expected results.

Modifications to PEMS since 1984 (see Section B of Chapter 6) have been designed to provide for more effective control over total spending and for greater flexibility and accountability of departments in their utilisation of approved resources. Policy reserves have been reduced and central control strengthened over the remaining provisions for reserves. Moreover, to help realize a stronger expectation that departments live within budget, line ministers and department managers will receive enhanced discretionary authority to make choices to improve programme effectiveness and efficiency through the reallocation of approved resources. The existing OPFs, together with improved internal audit and programme evaluation systems, are expected to provide the bases for stricter accountability for the use of approved resources.

Denmark. In the autumn of 1983, the Danish Government developed a Modernisation Programme to reform the public sector. Its main components are a budgetary reform, more reliance on market mechanisms or quasi-market forces, better management methods in departments and agencies, and use of new information technology. The objective is to secure vitality and higher quality of services within a zero-growth framework, and it is intended to do this by giving departments and lower level managers more discretion and incentives to economic.

Most progress has been made in the area of budgetary reform. In general, this relies on further decentralisation, net expenditure control and even, to some extent, net appropriations.

The control of the Post Office, Railways and a few other public enterprises (whose transactions are handled gross in the budget) has been relaxed. It now focuses on a predetermined net financial result. Departments and agencies with business-like supplementary activities are allowed to expand these according to simple rules to prevent distortion of competition. All agencies are allowed to use incidental receipts without formal appropriation.

Each department has more scope to move money between its votes and agencies are free to shift expenditure from one item to another, except that expenditure on pay cannot be increased. The previous facility to carry forward unused money on investment projects is extended to encompass current expenditure as well. Uncommitted balances may be carried forward up to four years, provided their future use is specified. Finally, most provisions for separate parliamentary approval of minor investment projects, sales of buildings etc. have been abolished.

In 1986, the former very detailed control on staff is being replaced by a single man-year limit of each agency. Within this, more detailed controls on numbers

of senior posts are retained, as an instrument of control over organisational structure.

In 1987, a change from volume to cash budgeting will be implemented. New decentralised financial management systems are being implemented.

As a consequence of the budget reform – and the high priority given to the reduction of the budget deficit – the overall expenditure control has been transferred from gross expenditure to net expenditure. Though the objective still is to limit gross expenditure, the operative expenditure target, or "frame", for each minister is fixed as a net-figure, which means that increased revenues (except taxes) "count" as savings.

Ireland. A number of measures have been introduced to bring about a substantial improvement in financial systems both at central Government level and also at the general public sector level. Major financial initiatives over the past three years include:

- Publication of the "Comprehensive Public Expenditure Programmes";
- Prescription of systematic procedures for the appraisal of capital projects;
- Expenditure by Departments is now controlled month by month on the basis of profiles approved at the beginning of each financial year;
- Introduction of a formal system of reporting to Government on the financial performance of the commercial State bodies based on corporate plans;
- Issue to Departments of "Guidelines for Financial Management";
- Publication in September 1985 of a Government White Paper on the reform of the Public Service.

The Guidelines for Financial Management which were issued in 1984 require Departments to identify, by reference to the "Comprehensive Programmes of Public Expenditure" or otherwise, major expenditure programmes, broken down into activities or services, as appropriate, which are suitable for budgeting and accounting on an ongoing basis. This will facilitate greater delegation on an activity basis and so bring the widest range of costs under delegated managerial influence.

The Guidelines cover such areas as: planning on the basis of expenditure programmes and activities; identification of individual managers who will have responsibility for programmes and activities; budgeting in accordance with Government decisions; the development of adequate financial reporting mechanisms; the adoption of procedures for rolling reviews of the effectiveness of programmes; and the adoption of a programme of internal audit.

This process has received a major impetus with the publication of the Government's White Paper on the Public Service, which sets out planned reforms in structures and managerial systems. The Guidelines provide a framework for the development of the financial elements of departmental management systems and

are an integral part of the new management systems envisaged in the White Paper.

United Kingdom. The government launched its Financial Management Initiative (FMI) in May 1982. This called on each of the departments taking part to develop management systems and practices which gave managers at all levels: clear objectives; means of assessing progress towards them; well-defined responsibilities for making best use of the resources in their charge; and the information and expert advice they needed to support these responsibilities.

Each department is developing arrangements tailored to its own functions so that there is a good deal of local variation on essentially common themes. It is too soon for the developments to have had a major impact on the conduct of the government's central budgeting processes: on the annual public expenditure survey (PES) or the annual Supply Estimates. The new emphasis on clarifying aims and objectives and on developing and using output measures and performance indicators to display what is being achieved by individual spending programmes is, however, already resulting in descriptions of achievement (and in some cases targets in such terms) in the annual public expenditure White Paper which records the outcome of each annual PES.

The common features of the developing arrangements in departments are:

- a) An annual process in which the manager of each significant organisational unit describes to top management of a department what his unit has been doing, his objectives, targets and tasks for the coming period, and the resources involved (in terms of staff numbers and cost, other administrative costs and the amount of any "programme" expenditure attributable to his unit). These structured submissions are reviewed by top management of the department to set priorities and make any necessary changes in the allocation of resources;
- b) The building up of more decentralised arrangements within each department for budgetary control of administrative expenditure. The heads of individual line commands will thus have a more managerial role than has been customary, with greater responsibility for the efficient and effective use of the resources (in terms of the staff and other administrative resources) allocated to them at the end of each budgetary cycle of bidding and scrutiny. Each senior manager is being encouraged to delegate further within his command, wherever it makes managerial sense to do so;
- c) Growing attempts to tackle the difficult problems inherent in more effective management of expenditure on functional programmes. This involves: putting the responsibility clearly on managers to plan and control the programmes they deal with; more thorough appraisal of policy proposals, to test their likely effectiveness;

and more monitoring and evaluation of programmes in operation, to change or weed out those demonstrating poor value for money;

- d) Some change of emphasis in the role of a department's Principal Finance Officer, in the direction of servicing the top management and budgeting systems and helping line managers develop the assessment of the spending programmes for which each is responsible and away from direct management of resources for the department as a whole;
- e) The linking of budgeting for running costs, programme planning and evaluation, and performance measurement from line managers through senior management and into the PES and Supply Estimates. This issue is one of the key points emerging from the current review of budgeting led by the Treasury's Accounting Adviser.

D. LONGER-TERM ASSURANCES TO MODERATE THE EFFECTS OF ANNUALITY

The principle of annuity is a prime element of traditional budgeting. The legislature appropriates funds one year at a time and cash not spent in the year lapses. Much of government is, in fact, continuous and many projects – building a road or training a doctor – take years to complete. In addition, there is a widely held view that, to some extent, the lapsing of funds at year-end leads to dysfunctional and inefficient "spending binges" in the final stages of a fiscal year. This leads to an argument that reducing the strictures of annuity would improve the cost-effectiveness of the budget. Thus budget departments always face demands for longer-term assurances of funding and have to find the right trade off between short-term flexibility and longer-term certainty.

One example of multi-year assurances to spending managers is provided by the arrangements in the *United Kingdom* for approval of the investment programmes of individual nationalised industries. Each year the Government reviews with each of them their investment and financing plans for the years covered by the annual Public Expenditure Survey. Each industry is then entitled to make firm plans and commitments for investment projects amounting to 100 per cent of its agreed investment programme in the first year ahead, 85 per cent in the second year and 70 per cent in the third year. These agreements are normally given in the autumn. Specific endorsement is needed from the responsible spending department for particularly large projects.

Currently the *Australian* aid programme is subject to substantial multi-year commitment. A major area of the programme, Australia's assistance to Papua New Guinea, is subject to a 5-year aid agreement specifying the

amounts of aid allocated to Papua New Guinea each year and the method of disbursement. As well, Australia undertakes biennial commitments of food aid under the Food Aid Convention, enters into specific multi-year commitments for bilateral projects and may lodge promissory notes with international financial institutions, such as the World Bank, which may be drawn down over several years.

In *Canada*, agreements are possible between the Treasury Board and individual spending departments about multi-year budgets, though still subject to annual appropriation of funds by Parliament. The general elements of such an arrangement include an undertaking by the spending ministry not to seek any supplementation in the years covered by the agreement and an undertaking by the Treasury Board to exempt the programme from further cuts, save in the most extreme circumstances. Multi-year agreements appear to be more useful as a budgeting tool when resourcing the requirements of a small agency with a clearly defined mandate and subject to workload pressures that do not undergo substantial variation. These qualities help to produce a fairly stable environment in which longer-term resourcing agreements can facilitate improved management.

Schemes for 'end-year flexibility' are designed to help cope with uncertainties in the timing of spending. In the *United Kingdom*, for example, there is an arrangement covering most departmental capital expenditure (which is also subject to annual cash limits), whereby a department may carry forward up to 5 per cent of its planned capital spending to the next financial year. Technically, the funds are voted again by Parliament and the cash limit is increased in the following year.

As discussed in Chapter 6, the *United States* has an obligations-based budget, under which outlays in a given year may well ensue from obligations of prior years. In addition, in some cases, for example major defense projects, the obligational authority may cover the entire cost expected to be incurred and may be in the form of multi-year or no-year authority. Also, in the 1987 budget the President announced his intention to consider strengthening the multi-year budgeting process. The Congress also passed legislation requiring that beginning in fiscal year 1988 the Defense budget be prepared and submitted to Congress on a 2-year basis. In *Italy*, the budget documents specify the level of cash outlays arising from previously approved commitment levels. However, these cash outlays must be accommodated with the overall cash limits for a given year which, as noted earlier, are also approved in the dual control system of the Italian budget.

The *German Budget Law* allows for investment expenditure and expenditure from specifically earmarked revenue to be carried over to subsequent fiscal years. Other expenditure may be declared eligible for carry-over in the annual budget plan, if it is earmarked for a purpose covering several years and if this is in the interest of efficiency and economy. Necessary funds are to be budgeted in order to carry over expenditure (unexpended balances – *Ausgabesterbe*). These funds are calculated in such a way as to be sufficient to cover the unexpended balances that will have to be spent in the next financial year, unless funds for unexpended balances can be provided from cash savings in the next financial year.

In *Denmark*, the established scheme applying to capital spending by departments and agencies has been extended to also cover current spending. Uncommitted balances can be carried forward for up to four years provided their intended use is specified in the final supplementary to the Finance Bill. If a department's specific use of funds is not detailed in the Supplementary, then the funds lapse at year-end.

In the *Netherlands*, under certain conditions it is permissible to transfer appropriated funds to the next fiscal year without Parliamentary approval. The first condition is that line-items eligible for this carry-forward are indicated as such in the budget document. Second, the budget document indicates the maximum amount of transferable funds. Finally, funds must be employed in the next budget year and the spending department is obliged to show that corresponding commitments were made in the originating fiscal year. However, the Dutch Cabinet has recently decided to abolish this means of carry-forward. In future, unspent balances will be transferred to the next budget year through a Supplementary Bill requiring Parliamentary approval.

A possible further development might be formal multi-year appropriations for certain programmes or agencies to overcome the managerial disadvantages of strict cash annuality while retaining adequate overall control in the short-term. In *Sweden*, for example, there is discussion of the possibility of putting the administrative budgets of the agencies that execute many of the governments' civil programmes on to a multi-year basis. The aim would be to make it possible to focus budget office effort on thorough reviews of, for example, one-third of the agencies each year. Each agency thus reviewed would then have an agreed programme of changes to make in its performance within three years, and would be assured funding for the whole period so that it could plan how best to meet its obligations.

NOTES AND REFERENCES

Introduction

1. The nineteen countries which participated in the study are: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Turkey, United Kingdom, and United States.
2. Four other OECD reports are useful background to the issues of the current study:
 - *OECD Economic Outlook*, No. 38, December 1985.
 - “The Role of the Public Sector: Causes and Consequences of the Growth of Government”, *OECD Economic Studies*, No. 4, Spring 1985, which describes how public sector activity has grown and reviews some of its economic consequences.
 - *Social Expenditure 1960-1990: Problems of Growth and Control*, which examines the growth of social expenditure, the determinants of that growth and prospective medium-term expenditure developments.
 - *Tax Expenditures: A Review of the Issues and Country Practices*, which examines the concept of tax expenditures and surveys the experiences of eleven OECD countries.

3. Countries use different names for the organisation at the centre of government with responsibility for the overall control and management of public expenditure. The Ministry or Department of Finance, Treasury, Budget Department are commonly used. In this report the generic term “Budget Office” is frequently used along with the terms “Budget Minister” – the Minister primarily responsible for public expenditure – and “budget officials” – those who work in the budget office.

Chapter 2

1. See *Tax Expenditures: A Review of the Issues and Country Practices*, OECD, 1985.

Chapter 3

1. This chapter draws extensively on the report “The Role of the Public Sector, causes and consequences of the growth of Government”, *OECD Economic Studies*, No. 4, Spring 1985.
2. See “The Role of the Public Sector”; Tables 8 and 9.
3. See “The Role of the Public Sector”; Table 15.
4. See *Social Expenditure 1960-90, Problems of Growth and Control*, OECD 1985.

Part II

INDIVIDUAL COUNTRY DESCRIPTIONS

COMMENTS ON TABLES 1 AND 2 IN THE COUNTRY CHAPTERS

Tables 1 and 2 provide summarised quantitative information regarding the financial structure of total general government. Economic categories of spending and financial flows between different levels of government and the private sector are shown for 1984 (or latest year available) and 1974.

The tables read as follows: the subsector of general government and the private sector appear both horizontally and vertically. Rows (horizontal) indicate the entity from which the financial flow originates. The columns designate the destination of financial flows. The consolidated general government revenue and expenditure are presented at the lower right hand quarter of the table.

The abbreviations used in the tables represent the following economic categories of government finances¹:

Cap.T.	Capital Transfers (i.e. unrequited transfers which are designed to finance gross capital formation, other forms of accumulation or long-term expenditure of the recipient).
Cons.	Final Consumption Expenditure, mainly intermediate consumption of goods and services and compensation of employees.
Cons.F.C.	Consumption of Fixed Capital.
Ind.Tax.	Indirect Tax Receipts.
Int.P.	Interest payments on Government Debt.
Investm.	Gross Investments, or gross fixed capital formation.
Net Lending	Net Lending.
O.Curr.T.	Other Current Transfers, i.e. transfers other than social security benefits, social assistance grants, and (within government) transfers to social security funds.
O.G.Acc.	Other Gross Accumulation, inter alia, net purchases of land and of intangible assets.
O.Rec.	Other (current and capital) Receipts, i.e. other than tax revenues and social security contributions.
Soc.Sec.T.	Social Security Transfers, i.e. social security benefits, social assistance grants, and (within government) transfers to social security funds.
S.S.C.	Social Security Contributions.
Subs.	Subsidies, i.e. all grants on current account to private industries and public corporations.
Tax.	Indirect and Direct Tax Receipts.
Wages	Compensation of Employees.

NOTE

1. For a complete definition, see OECD, *System of National Accounts*, Volume II, Glossary of Main Terms.

AUSTRALIA

Any changes which may have taken place in Australia since 1st September 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION MAKING

1. Political and organisational structure of government

Australia has a federal system of government comprising the Federal or Commonwealth government, the six State governments (and the Northern Territory, to which Commonwealth laws give State-like powers in most regards), and local government authorities which derive their powers and responsibilities from the State governments.

The Commonwealth Constitution assigns certain functions and revenue raising powers to the Commonwealth Government leaving the residual powers with the States. Commonwealth government functions are organised mainly around 28 departments and several agencies.

Departments each have one minister (a limited number also having a "minister assisting"); the Secretary of each department is a non-political appointment, in the sense that it is not limited by the life time of Cabinet; the same applies to the rest of the departmental personnel.

Parliament has two Chambers, the House of Representatives and the Senate. In the House 3 political parties are represented. Current Government is supported by one party having a majority position.

Elections for the House of Representatives and half of the Senate are required to be held at intervals of no longer than 3 years. The next elections are due early 1988. The ministers are nominated to the Governor-General by the Prime Minister from among the members of Parliament. A sub-set of ministers (currently numbering 17) form the Cabinet which is the main executive arm of government.

2. Main Budgetary Organs

Within Cabinet, the Treasurer and the Minister for Finance assume the principal responsibility for the budget with the former being responsible for the

majority of budget receipts and for borrowing and the latter for budget outlays and personnel resources. The Budget Speech is normally delivered by the Treasurer on behalf of the Government. Under the Treasurer are, inter alia, the Department of the Treasury and the Australian Taxation Office, advising on economic, monetary and taxation policies.

The Department of Finance is organised into seven divisions. Four divisions, organised along departmental groupings, are responsible for liaison and budgetary negotiations with other Ministries. Two divisions deal with accounting and financial management matters. The General Expenditure Division is responsible for the co-ordination of budgetary activities related to expenditure and the preparation of reports on forward estimates.

The General Expenditure Division, which is composed of some 60 staff, is divided into four branches of which the Expenditure Policy Branch performs the central budget expenditure policy and budget co-ordination functions with respect to aggregate outlays. Another branch is responsible for manpower budgeting and control matters.

3. Role of the Prime Minister and Cabinet

The Cabinet is involved both at the opening stage of the budget preparation, communicating the government's policies to the spending ministries through the issue of guidelines, and at the closing stage when final examination and formulation of the budget take place.

The Expenditure Review Committee (ERC) reduces the workload of Cabinet in budget decision-making. The ERC comprises the Prime Minister, the Treasurer, the Minister for Finance and two other Ministers of Cabinet who have spending responsibilities. The Committee resolves disputed budget bids and reviews programmes with the appropriate Minister concerned and those Ministers whose portfolio is affected by the programme.

Late in the budget cycle, final decisions are taken by the full Cabinet; these sittings of the Cabinet are called "Budget Cabinet".

4. Role of Legislature

Only expenditure from the annual appropriations is subject to regular authorisation by the Parliament; the remainder of expenditure (about two-thirds) is provided via standing appropriations authorised under separate legislation by Parliament and does not require annual authorisation.

The budget is debated in the House of Representa-

tives and the Senate. The Constitution limits the powers of the Senate in respect of appropriations for "ordinary annual services", like wages and salaries. Under an agreement between the two Houses in 1965, reflecting that limitation, appropriations are apportioned between "ordinary annual services" (Appropriation Bill No. 1), which the Senate may reject or defer but not amend and "other than ordinary annual services" (Appropriation Bill No. 2) which encompasses most capital expendi-

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

From	To	Central Government	State and Local Government	Private Sector (3)	Total Expenditure
Central Government			O.Curr.T. 7.8 Cap.T. 1.5 9.4	Cons. 6.0 Int.P. 2.7 Subs. 0.8 Soc.Sec.T. 9.8 O.Curr.T. 0.8 Investm. 0.4 Cap.T. 0.2 20.7	Cons. 6.0 Int.P. 2.7 Subs. 0.8 Soc.Sec.T. 9.8 O.Curr.T. 8.7 Investm. 0.4 Cap.T. 1.7 30.0
State and Local Government	Int.P. 1.1			Cons. 10.8 Int.P. 0.4 Subs. 0.9 Soc.Sec.T. 0.4 O.Curr.T. 0.7 Investm. 3.2 Cap.T. 0.3 16.8	Cons. 10.8 Int.P. 1.5 Subs. 0.9 Soc.Sec.T. 0.4 O.Curr.T. 0.7 Investm. 3.2 Cap.T. 0.3 17.9
Private Sector (3)	Tax. 25.2 (Ind.Tax.) (8.4) O.Rec. 1.1 26.3	Tax. 6.5 (Ind.Tax.) (5.9) O.Rec. 1.4 7.8	General Government (Consolidated)		
			Cons. 16.9 (Wages) (.) Int.P. 3.1 Subs. 1.7 Soc.Sec.T. 10.1 O.Curr.T. 1.5 Investm. 3.6 Cap.T. 0.5 37.5	Tax. 31.7 O.Rec. 2.5 Cons.F.C. (4) . 34.7	
Total Revenues	Tax. 25.2 O.Rec. 2.2 27.4	Tax. 6.5 O.Rec. 10.7 17.2			Net Lending -3.4
Memorandum Items:					
(Cons.F.C.) (4)	(.)	(.)			
(Net Lending)	(-2.7)	(-0.7)			

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Including transactions with public enterprises and the overseas (foreign) sector.
- No charges have been made for consumption of fixed capital.

Source: Australian Bureau of Statistics, *Annual National Accounts*.

tures and all major new initiatives. Further, the Senate may not initiate bills imposing taxation or increasing any charge or burden on the people.

Once a budget is finalised, usually by mid-August, the Budget speech is read simultaneously in both Houses of Parliament; at this stage the annual Appropriation Bills are introduced into the House of Representatives (HoR) and documents showing particulars of proposed expenditure in respect of each Bill are tabled in the Senate. These documents facilitate consideration of the Bills by Senate Estimates Committees (SECs) and debate is suspended in the HoR to allow the SECs to consider proposed expenditure in detail for each department and agency. There are six Estimates Committees covering different functional areas. To facilitate consideration by

these Committees, departments provide explanatory documents. The responsible Minister, or his representative in the Senate, and officials of departments are present to provide further information as required.

After allowing a period for the SECs' deliberations, the HoR resumes debate. While the SECs continue their deliberations, the HoR continues debate on the bills in a Committee of the Whole (House). This committee reports to the speaker (chairman) of the House and the Bills are passed by the HoR usually in late September or early October.

The Bills are then formally introduced in the Senate where, after debate in Committee, the Senate invariably passes the Bills (in 1975 the Senate's refusal to vote on

Table 2
General Government Figures
In % GDP, 1974 (1) (2)

From	To	Central Government	State and Local Government	Private Sector (3)	Total Expenditure
Central Government			O.Curr.T. 6.0 Cap.T. 2.2 8.2	Cons. 5.6 Int.P. 1.4 Subs. 0.5 Soc.Sec.T. 6.8 O.Curr.T. 0.7 Investm. 0.7 Cap.T. 0.2 16.0	Cons. 5.6 Int.P. 1.4 Subs. 0.5 Soc.Sec.T. 6.8 O.Curr.T. 6.7 Investm. 0.7 Cap.T. 2.4 24.2
State and Local Government		Int.P. 1.2		Cons. 8.6 Int.P. 0.2 Subs. 0.7 Soc.Sec.T. 0.3 O.Curr.T. 0.4 Investm. 4.2 Cap.T. 0.2 O.G.Acc. 0.1 14.8	Cons. 8.6 Int.P. 1.4 Subs. 0.7 Soc.Sec.T. 0.3 O.Curr.T. 0.4 Investm. 4.2 Cap.T. 0.2 O.G.Acc. 0.1 16.0
Private Sector (3)		Tax. 22.4 (Ind.Tax.) (6.2) O.Rec. 0.6 23.1	Tax. 5.8 (Ind.Tax.) (5.0) O.Rec. 1.1 6.9	General Government (Consolidated)	
				Cons. 14.3 (Wages) (13.1) Int.P. 1.6 Subs. 1.2 Soc.Sec.T. 7.2 O.Curr.T. 1.1 Investm. 5.0 Cap.T. 0.4 O.G.Acc. 0.1 30.8	Tax. 28.2 O.Rec. 1.7 Cons.F.C. (4) 29.9
Total Revenues		Tax. 22.4 O.Rec. 1.9 24.3	Tax. 5.8 O.Rec. 9.3 15.1		Net Lending -0.9
Memorandum Items:					
(Cons.F.C.) (4)		(..)	(..)		
(Net Lending)		(0.1)	(-1.0)		

Notes: see table 1.

the Bills precipitated a political/constitutional crisis eventually leading to a change of government).

The annual appropriations are organised along portfolio lines and within each portfolio by department and agency. Running costs apart, the appropriations specify authorised expenditure limits in some detail. (There are approximately 1200 separate annual appropriation items.) Supply Acts (conventionally passed without extensive debate before the start of the fiscal year on 1 July) authorise ongoing expenditure pending passage of the annual Appropriation Bills through both houses of Parliament which is usually not completed until November i.e. some 4 months after the start of the financial year.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Compared to other OECD countries, General Government is among the smaller ones. Central Government, however, is relatively big, taking into account its Federal character. This might be explained by the social security programmes as they are organised mainly through central government's budget. Both general and central government net lending have increased by 2½ percentage points over the 10-year period, which is less than the average of OECD countries.

The Commonwealth government has exclusive powers for matters such as defence, immigration, telecommunications and postal services and the collection of customs and excise duties. Social security expenditure is almost entirely dependent on the Commonwealth government's budget: no separate social insurance funds exist.

The Commonwealth raises about 75 per cent of total public sector revenue (excluding borrowing) of which the dominant component has been personal income taxes. Around one third of Commonwealth revenue is passed on to the State and local governments in the form of general or specific purpose payments. State-type taxes include payroll tax and stamp duties; local governments also raise their own revenue largely by imposing rates on land, residential buildings etc. The State and local governments also receive tied and untied advances from the Commonwealth, "advances" referring to direct loans and, in the case of the State governments, borrowings made by the Commonwealth on their behalf through the Loan Council borrowing programme. Some Commonwealth and State statutory authorities (e.g. Telecom and state electricity commissions), local government authorities and government-owned companies can also borrow on their own account subject to guidelines (see section C) determined by the Australian Loan Council which comprises the Prime Minister, the Commonwealth Treasurer and the six State Premiers.

Table 3. Budget Outlays by Function for 1985-86
As a percentage of total

Defence	9.5
Education	7.0
Health	9.8
Social Security and Welfare	27.4
Housing and Community Amenities n.e.c.	2.1
Culture and Recreation	1.3
Economic Services	6.4
General Public Services	6.9
Not allocated to Function:	
Payments to other Governments	19.4
Public Debt Interest	10.1
Allowance for prospective wage and salary increases (non-defence)	
Total	100.0

Source: Budget Statements, 1986-87 (see Section H)

C. STRATEGIC AIMS AND GLOBAL NORMS

The current government, on taking office, committed itself to decrease or at least stabilize Commonwealth budget aggregates during its three-year term. Commonwealth budget outlays, tax revenue and the deficit are not allowed to grow as a percentage of GDP. This commitment is often referred to as the "trilogy".

The Commonwealth budget sector, through the Loan Council Borrowing Program, finances a significant proportion of the total public sector deficit. The budget sector deficit, as subject to the trilogy, is less than the net public sector borrowing requirement to the extent that the Commonwealth non-budget sector and state and local government authorities can finance their own deficits other than through the loan council program (i.e. borrow funds directly through the market). The revenue target relates to taxes levied by the Commonwealth government only and hence excludes taxes levied by other levels of government and all non-tax revenues.

Finally, the third arm of the trilogy is "total budget outlays" of the Commonwealth government. Outlays include:

- Consumption expenditure and net purchases of capital goods;
- Current and capital transfer payments; and
- Net advances paid.

A special arrangement has been created in order to guide and control borrowings of the Commonwealth and state governments. Borrowing activities of all levels of government are co-ordinated and controlled by the Loan Council so as to make them consistent with other macro-economic targets. The Loan Council in 1984 established arrangements which provide for annual agreed limits on new money borrowings (broadly defined to include all forms of financing capital expenditure) by the Commonwealth and each of the States for their statutory authorities and local government bodies

and government-owned enterprises. The limits are agreed outside the Commonwealth and State Budget processes, but are determined having regard to macro-economic objectives.

The following table shows some Commonwealth budget aggregates since 1980-81, together with estimates for 1986-87.

Table 4. Fiscal Indicators, 1980-81 to 1986-87

As a percentage of GDP

	Outlays	Tax Revenues	Deficit
1980-81	26.6	24.0	0.8
1981-82	27.0	24.7	0.4
1982-83	29.2	24.4	2.7
1983-84	29.8	23.5	4.2
1984-85	30.4	25.0	3.2
1985-86	30.1	25.2	2.5
1986-87 - estimate	29.4	25.5	1.4

Source: Budget Statements, 1986-87 (see section H).

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates (MYE)

Expenditures are forecast on a present policy basis. There is no link to a medium term fiscal plan; MYE

serve as a means to highlight multi-year consequences of government plans as embodied in the next annual budget.

Published shortly after the budget has been submitted to Parliament, MYE cover the current budget year and two forward years.

MYE are comprised wholly of total Budget Outlays which are based on forecasts of macro-economic parameters. Estimates are both prepared and published at detailed functional level, involving on average about 10 groups per departmental spending area.

Department of Finance publishes a Report of Forward Estimates of Budget Outlays each year (since 1983), which covers the budget as proposed by the Government, and its multi-year projections. Starting in 1986, the Forward Estimates are to be published shortly after the Budget.

2. Calendar of main points of decision-making and activities

The fiscal year (FY ($t/t+1$)) runs from 1 July (year t) to 30 June (year $t+1$).

It should be noted that the stages and timing may vary from year to year. This table reflects the process for the preparation of the 1986-87 Budget.

Months before start of FY ($t/t+1$)	Main events and activities
(year $t-1$)	
10 (September)	Departments/agencies submit forward estimates of outlays and staffing to Department of Finance.
8 (November)	Publication of Forward Estimates Report (Note: This schedule for forward estimates applied to the preparation of the 1986-87 Budget only. For future Budgets, forward estimates will be prepared concurrently with the Budget.)
(year t)	
6 (January)	Departments/agencies submit first bids for upcoming budget year and estimates for 2 outyears. (For future years, these estimates will be an update of the forward estimates.)
5 (February)	A look at the budget in aggregate and in economic context to Cabinet based on first bids and outyears. Ministerial Budget Strategy Meeting.
4-3 (March-April)	Expenditure Review Committee of Cabinet (ERC) examination of first bids possibly incorporating portfolio targets consistent with overall strategy.
2 (May)	Submissions of draft portfolio budgets based upon decisions taken in priority-setting stage (Feb/March/April). Supply Bills introduced/passed.
1 (June)	Probable ERC consideration of portfolio budgets. Premiers' Conference/Loan Council Meeting.
0 (1st July)	Start of Fiscal Year ($t/t+1$)
(+1) (July)	Revenue committee (comprising senior ministers) decides on revenue measures. ERC/Budget Cabinet makes final expenditure decisions.
(+2) (Budget August)	Presentation of Budget in Parliament.
(+4) (October)	Publication of Forward Estimates for FY+1, FY+2, and FY+3 consistent with the Budget.
(+5) (November)	Parliament passes annual appropriations.

3. The annual budget cycle

Budget formulation is now virtually a full year cycle with work commencing on preparation of the next budget shortly after the current budget is presented to Parliament.

The process has several major stages:

- a) Preparation of First Bids and Outyear Estimates - "priority setting" stage. For the 1986-87 budget process, departments submitted forward estimates, covering the three years 1986-87 to 1988-89, shortly after the 1985-86 Budget was presented to Parliament and the Forward Estimates Report was published by the Department of Finance in November 1985; for future budgets different arrangements will apply - see point c below. In December/January, ministers and departments prepare estimates for the upcoming budget year (the first forward year of the published Forward Estimates) and two out-years, from which the government sets its overall budget strategy, possibly incorporating portfolio targets consistent with the strategy, and reflecting information on the economic outlook provided by Treasury. In the 1986-87 budget cycle, this "priority-setting" stage included a round of discussions between each Minister and the Expenditure Review Committee of Cabinet;
- b) Preparation of Portfolio budgets - finalisation of detailed estimates. Draft portfolio budgets based upon the decisions taken in the priority-setting stage provide the final set of estimates which ministers submit for consideration in the budget process. The scope for new policy beyond Ministers' capacity to find offsetting savings elsewhere in their portfolios is generally considered late in the process when the economic and budgetary outlooks are clearer. The examination of these estimates, and the resolution of issues by the Minister for Finance, ERC, or ultimately by Budget Cabinet are the final steps before the estimates are set into the Appropriation Bills to be presented to Parliament and the Budget documents prepared. The Revenue Committee of Cabinet meets concurrently with Budget Cabinet to review on-going and new revenue measures;
- c) Preparation of Budget Documents - material prepared by Departments, Finance and Treasury is co-ordinated by the latter two for tabling in Parliament on Budget night. From 1986-87, forward estimates will be published in October (shortly after the Budget is presented), showing estimates for the budget year plus two forward years.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

In the annual budget context, policy reviews are undertaken by the Expenditure Review Committee (ERC) of Cabinet and cover the examination of both new and ongoing expenditure proposals. The reviews include the consideration of "savings options" which may be proposed either by the relevant Minister or the Minister for Finance. Outside the budget context, there are major reviews of the efficiency and effectiveness of programmes and their administration commissioned directly by ministers; committee members undertaking such reviews may be drawn from within government or elsewhere and will usually be supported by a secretariat. Other reviews may also be commissioned and co-ordinated by parliamentary committees and by central agencies. More specifically, the Public Service Board, the Department of Finance and the Auditor-General all participate in reviews relevant to their responsibilities and the Department of Prime Minister and Cabinet is responsible for co-ordinating reviews other than those undertaken by Parliamentary committees. The Department of Finance is usually represented on any major review team and via its budget co-ordinating role it feeds results into the budget process. The Auditor-General, in addition to compliance reviews concerning the implementation of the budget, also undertakes efficiency audits of Commonwealth Departments and most statutory authorities.

In addition to these external reviews, all departments are required to prepare management improvement plans and all undertake systematic internal reviews or audits in order to evaluate performance and assist in generating improved internal management. Internal review reports are considered to be working papers and are not usually published. An aspect of Australian budgetary reform (see Section G below) is to place increasing importance on internal reviews and audit processes and the associated key responsibility of programme managers for continually reviewing and improving efficiency and effectiveness.

In terms of direct impact on the annual Budget the reviews undertaken by ERC have been of greatest significance. Nevertheless as indicated above, increasing recognition is being given to the value of having more reviews undertaken outside the budget context.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

The Minister for Finance issues a monthly Statement of Commonwealth Financial Transactions. This Statement summarises all budget transactions showing

budget estimates for the year, the monthly transactions, year-to-date figures and the corresponding year-to-date figures for the previous years. Often accompanying the Statement is a discussion of the reasons for and extent of significant variations from budget estimates and the likely impact on the full year's results.

Usually in January, Cabinet considers the implementation of the budget on a comprehensive scale (so-called mid-year review of current budget). In certain circumstances, supplementary funding is made available to meet prospective expenditure overruns through the passage of additional appropriation bills normally once a year in May. Supplementary funding can also be made available through the so called Advance to the Minister for Finance, a specific but limited amount appropriated to cover urgent and unforeseen requirements. This Advance amounted to about 1.3 per cent of total annual appropriations in 1985-86. The Advance is appropriated as one item in each annual appropriation act.

The government issues strict guidelines concerning access to supplementary funding and requires off-setting savings in other appropriations to the maximum extent possible.

The Commonwealth budget is cash based and some appropriations are cash limited. Cash limiting was applied in 1984-85 to administrative operational expenses items (which do not cover salaries) of departments and certain agencies – covering about 2 per cent of total annual appropriations – and further extensions are contemplated. However, more informal cash limits have been applied to certain other programmes.

2. Managerial Discretion

The Secretary of a Department and each head of other agencies are accountable to the Minister (and through him/her the Parliament) for the efficient and effective performance of programmes administered by the Department. The Secretary is required to present a departmental report annually to the Minister for tabling in Parliament and prepares explanations for the departmental Financial Statements prepared by the Minister of Finance.

In recognition of the increasing need to make the most effective and efficient use of scarce resources, departmental managers are progressively being given both more responsibility and increased flexibility in the allocation of resources appropriated by the Parliament. This is being achieved through a reduction in the number of appropriation items, the extension of cash limits and a greater discretion in the use of staffing and administrative resources generally. The rate of devolution is contingent upon departments demonstrating that they have suitable management systems in place to ensure adequate control and accountability.

Funding authority can only be transferred between votes during the year after Parliamentary approval. Any expenditure obligation to be funded from annual appro-

priations that is incurred in respect of future years first requires the approval of the Minister for Finance or the Minister's delegate within the Department of Finance.

Annual appropriations, if not spent, lapse at the end of the year. The related funds are not allowed to be carried forward to the next budget year.

G. CURRENT REFORMS

The broad aims of the Government's budgetary and financial management reforms are:

- To focus attention more clearly on the goals and objectives of particular programmes, in relation to the resources they use;
- To develop and apply to the management of Commonwealth programmes specific techniques aimed at improved performance and more efficient resource use; and
- To set up machinery to ensure that the effectiveness and efficiency of programmes are reviewed regularly, and that the results of such reviews are taken into account in the on-going evaluation of budgetary priorities.

Reforms being currently implemented involve a number of strands as detailed below.

Financial Management Improvement Programme (FMIP)

The FMIP emphasises the corporate approach to management and is particularly concerned with efficient and effective resource management, on a programme basis, within departments and authorities. The FMIP and Programme Budgeting are mutually supportive reforms.

Programme Budgeting

Programme budgeting focuses the budgetary and financial management processes on the purposes of government activity and on the assessment of the effectiveness and efficiency of that activity rather than the level of expenditure on input resources. The government has decided that programme budgeting should be implemented in all Commonwealth departments and budget dependent agencies; almost all agencies will have adopted programme budgeting by FY 1987-88.

Staff Budgeting

The integration of staff and financial budgeting means that the requirements for staff resources and associated expenditures will be more closely linked to Government programmes and objectives. Arrangements are being developed to enable managers to make a

trade-off between staffing and other resources for the efficient and effective achievement of programme objectives.

Cash Limiting/Consolidation of Appropriations

Starting with FY 1984-85, the Administrative Expenses appropriations (not covering salaries) were consolidated into one item for each agency allowing programme managers to switch administrative resources without seeking further Parliamentary approval. This increased flexibility was provided together with a strict cash limit on the appropriation; i.e. no supplementation would be provided (other than in exceptional circumstances).

Further developments include the consolidation of the Administrative Expenses and Salaries appropriations, the cash limiting of those combined appropriations and provisions for reflecting unspent Administrative Expenses in the following year's allocation (up to a limit).

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year runs from 1 July, year (t), to 30 June, year (t+1).

1-11. Budget Papers nos. 1 to 11, all published on Budget night August, year (t).

No. 1. Budget Statements

Contains detailed information on the Budget figuring and measures, as well as explanatory material on broader economic content.

No. 2. Appropriation Bill (No. 1)

Appropriates sums out of the Consolidated Revenue Fund for the ordinary annual services of Government.

No. 3. Appropriation Bill (No. 2)

Appropriates sums out of the Consolidated Revenue Fund for new policies, capital works and services, plant and equipment and payments to the States and the Northern Territory.

No. 4. Appropriation (Parliamentary Departments) Bill

Appropriates sums out of the Consolidated Revenue Fund for Parliamentary Departments.

No. 5. Estimates of Expenditure and Receipts of the Commonwealth Public Account

Contains information relating to the Consolidated Revenue Fund, the Trust Fund and the Loan Fund.

No. 6. Portfolio Program Estimates

Presents information on appropriations and outlays for each portfolio in programme terms.

No. 7. Payments to or for the States, the Northern Territory and Local Government Authorities

Provides comprehensive information on funds for the States, the Northern Territory and local government authorities, including Commonwealth Budget Funds and Loan Council borrowings by Statutory Authorities.

No. 8. Government Securities on Issue

Provides data on the structure and movement of securities issued by the Commonwealth and the States.

No. 9. Australia's Overseas Development Assistance Program

Sets out details of Australia's bilateral and multi-lateral aid programmes.

No. 10. National Income and Expenditure

Gives estimates of gross domestic product, gross national expenditure and national income for the previous five years.

No. 11. Income Tax Statistics

Contains a summary of certain income tax data.

12. *Budget Speech*, made to Parliament by Treasurer.

13. *Portfolio Program Statements*, detailed information on a programme basis for departments which have adopted programme budgeting August, year (t).

14. *Report on the Forward Estimates of Budget Outlays*, approximately annual; various publication dates, last published in November 1985.

15. *Annual Report* (of each Department), describes goals, programmes, information-management etc. of the particular department for the year ahead and assesses its performance over the past year, September-December, year (t+1).

16. *Statement of Commonwealth Financial Transactions* (monthly).

Other documents

17. *Budget Reform*, April 1984.

18. *Reforming the Australian Public Service*, December 1983.

Point of Contact

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NOTE

1. A Minister's portfolio includes the department and each agency for which he/she is responsible.

BELGIUM

Any changes which may have taken place in Belgium since 1st July 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

Belgium is a unitary state. Three levels of public authorities can be distinguished: the central level, including the State, the Communities and the Regions, the lower level (provinces and municipalities) and social security organisations. Communities and Regions have only been organised in 1980. Certain central government functions, including control of local authorities, were then separated from the State-Government. (See section B).

The three Communities, the Francophone, Flemish and Germanophone, have their own legislation and government. The same holds for the Flemish and Walloon Regions; the Brussels region has a special statute.

State government functions are organised mainly around about 14 ministries. Ministries have in general one minister and sometimes one or more Secretaries of State. A special Cabinet staff (le Cabinet du Ministre), which has no direct line management responsibilities, is also part of the political level to advise the Minister on all matters of concern. The Secretary General of each ministry is a non-political appointment, as is the rest of the departmental personnel. Ministers are usually a member of Parliament.

Parliament has two Chambers, the Chamber of Representatives (Chambre des Représentants) and the Senate (Sénat). At present, 13 political parties exist, four of which are split into a Francophone and a Flemish part, the others having a regional character.

With rare exceptions, State governments have to be supported by a coalition of political parties. There is a coalition agreement, which inter alia currently includes detailed budgetary policy guidelines. Direct Parliamentary elections are held every four years. The next election will be, at the latest, in 1989.

2. Main budgetary organs

Both the Minister of Finance and the Minister of the Budget are involved in budgetary policy matters. The Minister of Finance has primary responsibility for financial and tax policy formulation, whereas expenditure policies are in the domain of the Minister of the Budget. There is a Superior Council of Finances, which advises the Minister of Finance about financial and tax policies.

The Minister of the Budget is the head of the Budget Department, which is part of the Ministry of Finance. The Budget Department with about 100 professional staff is headed by a Director General. It is comprised of 5 directorates. Apart from the Budget Study Directorate, there is a budget preparation directorate and a directorate which checks on the expenditures. In matters of its concern, the Auditing Directorate prepares government decision making and advises the Minister of the Budget on new departmental spending initiatives, drawing on information provided by the Inspectorate of Finance. It is represented in the Committee on the Orientation and Coordination of Public Markets which prepares investment expenditure decision-making by government. Finally the Inspectorate of Finance's Directorate is involved in preparing the budgets of the ministries and monitoring and controlling their implementation. Its staff is mainly located in the spending ministries, with a very small central unit in the budget department.

3. Role of Prime Minister and Cabinet

The Council of Ministers is involved at the beginning of the budget cycle, deciding the (technical) guidelines for departmental preparation of budgets.

At the end of July, the Government considers the changes that have to be made to the budget extrapolation under unchanged policies. In recent years usually cut backs are decided at this stage. Moreover, the Government approves the budget-bill before submission to Parliament.

4. Role of Parliament

From the viewpoint of the Constitution, Parliament votes the State-budget. In practice, the general memorandum of the Budget, the revenue budget and the debt servicing budget are always submitted to the "Chambre des Représentants" first. Half of the other budgets are transmitted to the "Chambre des Représentants", the other half to the Senate. Those budgets which are transmitted to one of the two Chambers in the second round, during a certain year, are presented to them first in the following year.

In the first Chamber dealing with the budget full Chamber debate and decision-making is prepared by

competent Committees, one for each ministry, by forwarding a report. The debates in the other Chamber usually take place in full session directly.

If Chambers disagree with each other¹, the budget-bill will be transmitted to the Chamber which first dealt with the budget-bill. The two Chambers must approve the same text. Not one Chamber is superior to the other in this respect.

Parliament approves expenditure appropriations per departmental budget. It votes on each departmental expenditure total and decides implicitly on the allocation of expenditure as determined by budgetary articles. However, Parliament can change appropriations, at the level of a budget item or article. There are over 2000 expenditure items in the State-budget.

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government			O.Curr.T. (3) 2.7	Soc.Sec.T.: Curr. (3) 7.6	Cons. 13.0 Int.P. 8.6 Subs. 1.5 Soc.Sec.T. 2.0 O.Curr.T. (3) 0.8 Investm. 1.2 Cap.T. 1.2 28.3	Cons. 13.0 Int.P. 8.6 Subs. 1.5 Soc.Sec.T. 9.6 O.Curr.T. (3) 3.5 Investm. 1.2 Cap.T. 1.2 38.6
Local Authorities					Cons. 3.8 Int.P. 1.5 Subs. 0 Soc.Sec.T. 0.4 O.Curr.T. (3) 0 Investm. 0.7 Cap.T. 0.0 6.4	Cons. 3.8 Int.P. 1.5 Subs. 0 Soc.Sec.T. 0.4 O.Curr.T. (3) 0 Investm. 0.7 Cap.T. 0.0 6.4
Social Security Funds					Cons. 1.0 Soc.Sec.T. 20.4 21.4	Cons. 1.0 Soc.Sec.T. 20.4 21.4
Private Sector	Tax. 26.7 (Ind.Tax.) (11.3) O.Rec. 0.0 26.7	Tax. 2.3 (Ind.Tax.) (0.3) O.Rec. 0.6 2.9	S.S.C. 14.2 O.Rec. 0.4 14.6	General Government (Consolidated)		
				Cons. 17.9 (Wages) (13.3) Int.P. 10.1 Subs. 1.5 Soc.Sec.T. 22.8 O.Curr.T. 0.8 Investm. 1.9 Cap.T. 1.2 56.2	Tax. 31.0 S.S.C. 14.2 O.Rec. 1.0 Cons.F.C. 0.3 46.5 Net Lending -9.7	
Total Revenues	Tax. 26.7 O.Rec. 0.0 26.7	Tax. 2.3 O.Rec. 3.3 5.6	S.S.C. 14.2 O.Rec. 8.0 22.2			
Memorandum Items:						
(Cons.F.C.)	(0.2)	(0.1)				
(Net Lending)	(-9.7)	(-0.8)	(0.8)			

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Transfers to other government subsectors are recorded net.

Source: OECD, Annual National Accounts.

All central government expenditure is annually appropriated, including entitlements authorised under separate legislation.

If Parliament has not approved the expenditure appropriations before the start of the new fiscal year, the government has to seek provisional appropriations from Parliament. Appropriations can only be provided for the operation of existing programmes and agencies, and are calculated as one twelfth of the budget.

If the budget of Ways and Means has not been approved before 1st January, Parliament is asked to vote a Finance Act which authorises the Government to continue levying taxes.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Within central government, several tasks and responsibilities have been transferred to Communities and

Regions in 1980. Cultural and (partly) educational matters and health care are now taken care of by the Communities. As regards the Regions, they are now responsible for environmental, physical planning, water and energy matters, employment and part of economic policy formulation. They are financed by central government transfers of funds, transfers of certain national tax receipts and the possibility to contract borrowings.

Local Authorities are comprised of provinces and municipalities. They have residual powers in all matters concerning their territory and the inhabitants living therein. Their tasks include providing services to the public (for example, social assistance grants). In addition, they act as central government's agents in performing certain tasks.

Local Governments are entitled to a share of the tax imposed on physical persons; they can levy certain local taxes and are authorised to borrow.

The major part of social security is organised off-budget. The National Office of Social Security is in

Table 2
General Government Figures
In % GNP, 1974 (1)(2)

Notes: see table 1.

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government			O.Curr.T(3) 1.7	Soc.Sec.T.: Curr.(3) 3.7	Cons. 11.5 Int.P. 2.7 Subs. 1.2 Soc.Sec.T. 1.5 O.Curr.T.(3) 0.7 Investm. 1.4 Cap.T. 2.5 21.5	Cons. 11.5 Int.P. 2.7 Subs. 1.2 Soc.Sec.T. 5.2 O.Curr.T.(3) 2.4 Investm. 1.4 Cap.T. 2.5 26.9
Local Authorities					Cons. 2.7 Int.P. 0.8 Subs. 0 Soc.Sec.T. 0.3 O.Curr.T.(3) 0 Investm. 1.3 Cap.T. 0.0 5.1	Cons. 2.7 Int.P. 0.8 Subs. 0 Soc.Sec.T. 0.3 O.Curr.T.(3) 0 Investm. 1.3 Cap.T. 0.0 5.1
Social Security Funds					Cons. 0.8 Soc.Sec.T. 14.1 14.9	Cons. 0.8 Soc.Sec.T. 14.1 14.9
Private Sector	Tax. 24.1 (Ind.Tax.) (11.1) O.Rec. -0.5 23.6	Tax. 1.8 (Ind.Tax.) (0.4) O.Rec. -0.9 2.7	S.S.C. 11.5 O.Rec. 0.6 12.1	General Government (Consolidated)		
Total Revenues	Tax. 24.1 O.Rec. -0.5 23.6	Tax. 1.8 O.Rec. -2.6 4.4	S.S.C. 11.5 O.Rec. 4.3 15.8	Cons. 15.0 (Wages) (11.0) Int.P. 3.5 Subs. 1.2 Soc.Sec.T. 15.9 O.Curr.T. 0.7 Investm. 2.7 Cap.T. 2.5 41.5	Tax. 25.9 S.S.C. 11.5 O.Rec. 1.0 Cons.F.C. 0.2 38.6	Net Lending -2.9
Memorandum Items: (Cons.F.C.) (Net Lending)	(0.2) (-3.1)	(0.1) (-0.7)	(0.9)			

charge of collecting the social security contributions. Paying out social benefits and day-to-day management of different sectors (like health and disablement, pensions, family allocations and unemployment) are taken care of by semi-statal organisations, which have to account to the government. Social security contributions and rates of benefits are determined by Central Government.

The most important public enterprises are in the area of public transport, post and telephone, broadcasting and also include some public financial institutions. Parliament has to approve the budget of some, less autonomous, enterprises.

The following table shows the functional classification of government expenditure.

Table 3. Functional Classification of Government Expenditure

1985 estimates	
As percentage of total	
General administration	4.8
Defence	6.6
Public order and security	2.0
Communication	12.7
Commerce and Industry	3.0
Agriculture	0.7
Education, culture and recreation	16.7
Provisions of social security and healthcare	22.1
Housing and physical planning	0.1
Not classified (excluding repayments of public debt)	31.3
Total	100.0

Source: Ministry of Finance.

C. STRATEGIC AIMS AND GLOBAL NORMS

Budgetary targets are identified in the coalition agreement. They relate inter alia to the budget deficit, total burden of taxes and social security contributions and public debt.

Budgetary targets are usually expressed as a percentage of gross national product (GNP). The net Treasury Borrowing Requirements (TBR) is grosso modo the difference between revenues and disbursements, made by the Treasury, concerning the State, Communities and Regions. The net TBR is targeted to be 8 per cent of GNP by the end of 1987, and 7 per cent of GNP in 1989, when, at the latest, new elections will take place.

The burden of tax and social security contributions as a proportion of GNP should not be increased.

The following table indicates outturns for 1980-85 and an estimate for 1986.

Table 4. Fiscal Indicators 1980-1986
As percentage of GNP

	1980	1981	1982	1983	1984	1985	1986 (estimate)
Treasury Borrowing Requirements	8.5	12.6	13.0	12.6	11.3	12.0	11.5
Tax and social security contribution burden	42.9	43.4	45.0	44.6	45.7	46.3	46.4
Public debt	56.1	67.5	78.8	89.3	95.7	103.4	110

Source: *Exposé général du budget, 1986* (see section H)

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

At present no multi-year extrapolation of expenditure exists. It is proposed, though not yet implemented, to extrapolate expenditure two years beyond the budget year.

2. Calendar of main points of decisionmaking and activities

The fiscal year (FY(t)) is the calendar year (year t). (See table on page 67.)

3. The annual budget cycle

On the basis of norms and guidelines, provided in a letter by the Minister of Finance and the Minister of the Budget, each Ministry prepares budget estimates, based on unchanged policies (April-May).

Finance Inspectorates in each ministry coordinate preparation activities by drafting a so called check-up report which examines the unchanged policy expenditure levels. In bilateral meetings, (June-July) with spending departments these estimates are examined by the Department of the Budget. Subsequently, Finance Inspectors draft a detailed "evaluation report". On the basis of this report, inter alia, the Government decides the total extent and allocation of budget cutbacks.

Investment projects and their budgetary consequences for the following three years have to be submitted to the Department of the Budget. The proposals are examined by the Commission on the Orientation and Coordination of Public Markets (see Section A2), which drafts a report for Cabinet decision-making.

At the end of September, budget documents are submitted to Parliament, after which Parliamentary debates and decision-making take place.

Months before start of FY(t)	Main events and activities
(Year t-1)	
11-10 (February-March)	Minister of the Budget and Minister of Finance prepare guidelines and budget norms to be decided by Cabinet and transmitted to spending ministries.
9-8 (April-May)	Spending ministries submit budget estimates, constructed under the condition of unchanged policies; examination of these estimates by Finance Inspectorate.
7-6 (June-July)	Ministry of the Budget discussions with spending departments and eventually debate and decisionmaking in Cabinet and calculations of cutbacks, which have to be implemented.
4 (end September)	Submission of budget documents to Parliament.
3-0 (October-beginning year t)	Debate and decisionmaking in Parliament.
(Year t)	
0 (1st January)	Start of Fiscal Year (t)

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

For a few years, government aims to reduce public expenditure. This effort cannot be realised without taking structural measures, nor without abolishing mechanisms which lead to automatic spending increases. All sectors of Government, including social security institutions, are included and affected by this exercise.

Recently, a Treasury Committee has been established aiming to coordinate and improve management of the Treasury. First, the Committee has to analyse forecasts of cash requirements for the short and medium-term. Secondly, the Committee will examine the situation and financing of the Treasury.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

In the first stage of the implementation of the budget (January/February), expenditure estimates are reviewed by the Cabinet of the Budget Minister, representatives of each Ministry, and the Finance Inspectorate.

Guidelines, not generally aiming to control the expenditure total, are provided to release funds for the investment programme every four months.

Ministers have to ask the opinion of the Inspectorate of Finances concerning all expenditure proposals, with few exceptions: contracts and transfers in which only a small amount of money is involved, certain sorts of

personnel expenditure and expenditure flowing from organic (or legal) regulations.

The major implementation report is incorporated in the budget memorandum related to the new budget. On the other hand, the government gazette publishes monthly summarised information on the implementation of the budget.

2. Managerial discretion

The budget system has a mixed character in the sense that the appropriation has to cover both the commitment and the order to pay (*ordonnancement*) which precedes the actual payment.

Budget expenditure is allocated in the form of either un-split or split appropriations.

In both cases funds can only be committed during the budget-year. In the case of an un-split appropriation the cash payment (or actually the authorisation to pay) resulting from the commitment, can only be made in the budget year or the year following the budget year.

Though the Government Finance Act states the principle of un-split appropriations, the Budget-Bill may establish exceptions and should do so if necessary. If the implementation of a project exceeds the budget-year, a split appropriation allows for cash-payments to be made available even after this year.

The government only recently changed the rule that unspent balances on split appropriations could be transferred forward without any restrictions. At present, carry-over is in principle not possible but can be allowed for by decree.

Budgetary overruns can show up either in the check-up at the beginning of the budget-year, or during the preparation of a new budget or in examining cash patterns over the year. It might then be necessary to add to or to transfer certain balances and to impose new budgetary restrictions which the Government has to submit to Parliament.

G. CURRENT REFORMS

A new classification of government expenditure has been decided in 1985, in addition to the existing economic categorisation. Expenditure is now divided according to a more goals-oriented approach, rather than a cost-oriented approach. There are two sorts of expenditure programmes: subsistence programmes, which refer to the general administrative costs, and specific activity programmes, which cover the major tasks and duties of services, like judiciary assistance, school pupils transportation, medical services etc. This division is to better serve the management function of the budget.

Only recently, budgetary reforms are being studied so as to reduce delays in the process of budget preparation. Both stages, governmental preparation and Parliamentary debate and decisionmaking, are taken into account.

H. FURTHER INFORMATION

All documents are published in both French and Dutch.

Documents related to the annual budget

The fiscal year (FY)(t) is the calendar year (year t).

1. Budget Memorandum (*Exposé général du budget*) contains a synthesis of all (departmental) budgets which make up the State Budget, describes the economic context, total revenues of the State and its financial requirements. Budgetary developments are described linked to major policy areas, for example, public investments, education, co-operation, transfers etc., end September, year (t-1).
2. Budget Bills (*Projets de budget*), concerning spending departments, public debt and revenues, end September, year (t-1).

Other documents

3. General Situation of the Treasury (*Situation du Trésor*) year-end financial statement on the execution of the budget, situation of the Treasury and the development of public debt, April, year (t+1).
4. Writings of the Audit Office (*Cahiers de la Cour des Comptes*) audited year end statements which serve as a basis for Parliamentary queries to Ministers about the implementation of the budget, year (t+1).

Point of contact

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NOTE

1. Real disagreement seldom occurs; however, a change may be approved by the second Chamber considering the budget-bill.

CANADA

Any changes which may have taken place in Canada since 1st April 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION-MAKING

1. Political and Organisational Structure of Government

Canada is a federal country with expenditure jurisdiction and revenue powers divided among the orders of government. The 10 provinces have responsibilities in the broad areas of health and education, welfare and social services, the administration of justice and the disposition of Crown lands. Many major expenditure programmes administered by provincial authorities are jointly financed by federal and provincial governments (See Section B for more information.)

Canada has a two-chamber parliamentary system of federal government in which the legislative function rests with the Parliament of Canada itself, whereas the executive function is exercised by a Cabinet chosen by the Prime Minister. The two chambers are the Senate and the House of Commons. Cabinet Ministers, including the Prime Minister, are members of Parliament and usually sitting members of the House of Commons, although Senators (non-elective) occasionally are appointed to Cabinet. There are three main political parties, and the current government has a very large majority in Parliament. The next federal elections will occur by 1989, at the latest five years after the current government assumed office.

Central government functions are divided amongst some 75 departments and agencies, a few reporting directly to Parliament (e.g. the Auditor General) but most responsible to one of about 40 Cabinet Ministers. The most senior public service positions (heads of departments or Deputy Ministers) are appointed by the Prime Minister. All departmental personnel are non-political appointments.

2. Main Budgetary Organs

Within the federal government, the Minister of Finance has primary responsibility for the formulation of macro-economic policies. He also is charged with recommending the appropriate fiscal framework,

including the expenditure limits, or envelopes, for the broad policy areas consistent with the Government's priorities, and with advising on the economic impact and effectiveness of new proposals. The Minister of Finance also has responsibility for formulation of tax policies and recommendations on general revenue matters, as well as for debt management.

The Treasury Board, a committee of several Ministers, chaired by the President of Treasury Board, is responsible for the overall integrity of the financial and other resource control and management systems, the determination and approval of resource levels for all federal government programmes, the preparation of envelope accounts and provision of reports on the status of reserves, the preparation, and presentation to Parliament for formal approval, of the resource estimates of ongoing and proposed programmes, and for policy advice on the effective and efficient management of public resources generally. The Treasury Board also has the role of "employer" for 250 000 employees of federal departments and administers the Public Service Superannuation Plan.

The Treasury Board is supported by two secretariats: the Treasury Board Secretariat (TBS) and the Office of the Comptroller General (OCG).

The TBS provides analysis and advice to the Treasury Board Ministers on issues related to the management of the government's financial, human and material resources. Within the TBS, the Program Branch, with about 170 professional and support staff, analyses and makes recommendations to the Treasury Board and Policy Committees of Cabinet on departmental budgets and expenditure proposals, including personnel levels as well as financial resources. This branch is the centre for producing detailed expenditure plans including material presented to Parliament (See Section A4). Within Program Branch, the Expenditure Analysis and Estimates Divisions have overall responsibility for coordination and integration of the expenditure budget. The five other Divisions of the Branch are organised along portfolio lines, having lead responsibility for negotiations and relations with all spending departments and public enterprises. The Personnel Policy Branch of the TBS, with a staff of about 185, develops policies for standards and conditions of employment including training, and department organisation. The Staff Rela-

tions Branch, with about 90 staff, conducts bargaining negotiations with the public service unions. Advice to Treasury Board on the development and monitoring of policies concerning the use of materials and services required by departments (e.g. standards for contracts, computer equipment and travel expenses) is provided by the Administrative Policy Branch which has a staff of about 90. Roughly 60 person-years are allocated to the administration of the government's official languages policy, which falls under the purview of Treasury Board.

The Office of the Comptroller General is responsible for ensuring the establishment of management and financial practices in government departments. As part of its mandate, the OCG is responsible for preparing government financial and accounting policies and regulations, as well as the development of policies relating to comprehensive internal audits and programme evaluation. The OCG has roughly 150 professional and support staff.

3. Role of the Prime Minister and Cabinet

It would be quite unusual for a Canadian Minister of Finance to proceed with policy proposals which did not have the agreement and backing of the Prime Minister. The Cabinet Committee on Priorities and Planning, chaired by the Prime Minister, includes the Minister of Finance, President of Treasury Board and Chairmen of Policy Committees and is the main forum for setting the general directions and priorities of the Government, and for approving the multi-year Fiscal Plan and the allocation of resources to the policy sector envelopes. These broad allocations of "top-down" spending limits are taken upon recommendations of the Minister of Finance in consultation with the President of the Treasury Board, as well as on the basis of recommendations of the Chairman of the Policy Committees with respect to strategic sectoral policy objectives. Chairmen of four Policy Committees of Cabinet are responsible to ensure that committees review sectoral expenditure priorities in light of overall government priorities and policies. Where appropriate, Policy Committees can recommend the creation or abolition of programmes and thus the reallocation of resources within the overall expenditure levels, or envelopes, established for each policy sector.

The establishment of expenditure plans under the Policy and Expenditure Management System (PEMS) thus takes into account the expenditures and revenues likely to result from existing policies and programmes, particular policy sector priorities and plans, and overall fiscal objectives.

4. Role of Parliament

Information about the federal government's planned revenues and expenditures is presented to Parliament in two forms:

1. The Budget of the Minister of Finance, and
2. The "expenditure budget" or Main and Supplementary Estimates tabled by the President of the Treasury Board.

The Budget, which contains in its support documentation summaries of expenditures and anticipated revenues, is delivered to Parliament periodically, but in the past not necessarily on an annual basis. The government has recently suggested a fixed annual time for the presentation of the Budget to Parliament – roughly 1 to 2 months before the start of the fiscal year – starting in 1986. The Budget provides an opportunity for the Minister of Finance to make a statement of the government's economic policies and priorities, and to bring under review the entire financial position of government, present and prospective.

Supporting documentation to the Budget may contain a statement of the government's appreciation of the economic environment, including medium-term economic forecasts. This material provides Parliament with information concerning the state of the economy upon which the fiscal plan is based. In approving the Budget, Parliament assents to the fiscal policies of the government.

The Main Estimates, which provide the detailed expenditure plan for approved programmes, are tabled annually in Parliament approximately 1 to 1½ months prior to the start of the fiscal year. Although the Main Estimates are related integrally to the Budget, it is the details of expenditure contained in the former for which Parliamentary approval is needed to authorise cash outlays. Parliament annually votes and approves less than 40 per cent of total expenditures, the balance being so-called "statutory" items (such as interest on public debt and most transfers to provinces and persons) which receive continuing authority under separate legislation. The 40 per cent annually voted by Parliament is distributed over roughly 150 votes, although more detailed line-item information is provided to Parliament. Votes are organised separately for each department or agency, and within that by programme and type of payment (operating, capital, transfers). The Government must seek Parliamentary approval to increase the amount to be spent on any of these votes. Thus, in the course of the fiscal year, Supplementary Estimates may be tabled in Parliament to gain authority to provide for new initiatives or unanticipated expenditures. Recent years have seen as many as 3 or 4 Supplementaries each year, although two per year is the norm.

In practice, Parliament may propose only to delete or reduce sums included in the Estimates tabled by the government; again in practice, however, the Government would normally use its majority to reject such changes. Parliament cannot amplify the ambit of a vote nor increase the amount proposed by the Government. Main Estimates are considered by sectoral committees of Parliament over a four month period, including the first quarter of the new fiscal year (starting 1st April).

Parliament grants Interim supply at the start of the fiscal year, generally authorising spending equal to one-quarter of the total proposed in the annual appropriations under consideration. Under standing orders of Parliament, the House and Senate, each sitting as Committee of the Whole must consider and vote on the Main Estimates by the end of June.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Provincial governments are independent of the federal government as regards their revenue and expenditure policies. That is, there are no federal restrictions on

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

To	Central Government	Provincial Government	Local Authorities (3)	Social Security Funds (4)	Private Sector	Total Expenditure
From						
Central Government					Cons. 5.0 Int.P. 4.9 Subs. 1.7 Soc. Sec. T. 6.9 O. Curr. T. 0.4 Investm. 0.6 Cap. T. 0.7 20.2	Cons. 5.0 Int.P. 4.9 Subs. 1.7 Soc. Sec. T. 6.9 O. Curr. T. 4.9 Investm. 0.6 Cap. T. 0.7 24.8
Provincial Government					Cons. 6.6 Int.P. 2.0 Subs. 0.8 Soc. Sec. T. 4.1 O. Curr. T. 0 Investm. 0.8 Cap. T. 0.1 14.5	Cons. 6.6 Int.P. 2.0 Subs. 0.8 Soc. Sec. T. 4.1 O. Curr. T. 6.8 Investm. 0.8 Cap. T. 0.1 21.2
Local Authorities (3)					Cons. 9.4 Int.P. 0.7 Subs. 0 Soc. Sec. T. 0.2 O. Curr. T. 0 Investm. 1.2 Cap. T. 11.5	Cons. 9.4 Int.P. 0.7 Subs. 0 Soc. Sec. T. 0.2 O. Curr. T. 0 Investm. 1.2 Cap. T. 0 11.5
Social Security Funds (4)					Soc. Sec. T. 1.3	Soc. Sec. T. 1.3
Private Sector	Tax. 13.7 (Ind. Tax.) (4.1) S.S.C. 2.2 O. Rec. 1.8 17.6	Tax. 10.9 (Ind. Tax.) (4.9) S.S.C. 1.0 O. Rec. 4.1 16.0	Tax. 3.7 (Ind. Tax.) (3.7) S.S.C. 1.2 O. Rec. 0.9 2.1		Cons. 21.0 (Wages) (14.2) Int.P. 7.7 Subs. 2.5 Soc. Sec. T. 12.4 O. Curr. T. 0.4 Investm. 2.7 Cap. T. 0.9 47.5	Tax. 28.2 S.S.C. 4.4 O. Rec. 7.0 Cons. F.C. 1.7 41.4
Total Revenues	Tax. 13.7 S.S.C. 2.2 O. Rec. 1.8 17.6	Tax. 10.9 S.S.C. 1.0 O. Rec. 8.6 20.4	Tax. 3.7 S.S.C. 1.2 O. Rec. 7.1 10.8			Net Lending -6.2
Memorandum Items:						
(Cons. F.C.)	(0.3)	(0.7)	(6.8)			
(Net Lending)	(-6.9)	(-0.1)	(0.1)	(0.7)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Local Authorities include hospitals.
- Social Security Funds refer to Canada and Quebec Pension Funds only.

Source: OECD, Annual National Accounts.

provincial decisions in this domain. There are periodic meetings of the federal Minister of Finance and his provincial counterparts to exchange views on fiscal and economic policy. Local governments are incorporated by each province to perform certain functions falling within provincial jurisdiction. Generally, local government taxation revenues are confined to property taxes. Transfer payments from the federal to other levels of government represent about 20 per cent of total federal spending. About two-thirds of this is accounted for by federal contributions towards the financing of hospital

insurance, medical care, post-secondary education and social assistance payments which are the responsibility of provincial and municipal governments. The federal government generally has no formal direct authority over benefit or premium levels nor entitlement conditions for most of these programmes. Of course, the transfer payments themselves arise from federal legislation and are subject to federal control.

The major social security expenditures included in the federal budget are for universal pensions, family allowances and unemployment benefits, which account for

Table 2
General Government Figures
In % GDP, 1974 (1)(2)

From	To	Central Government	Provincial Government	Local Authorities(3)	Social Security Funds(4)	Private Sector	Total Expenditure
Central Government						Cons. 4.9 Int. P. 2.0 Subs. 1.4 Soc. Sec. T. 5.8 O. Curr. T. 0.3 Investm. 0.6 Cap. T. 0.1 15.2	Cons. 4.9 Int. P. 2.0 Subs. 1.4 Soc. Sec. T. 5.8 O. Curr. T. 4.4 Investm. 0.6 Cap. T. 0.1 19.4
Provincial Government						Cons. 5.0 Int. P. 1.0 Subs. 0.4 Soc. Sec. T. 3.0 O. Curr. T. 0 Investm. 1.4 Cap. T. 0.1 10.9	Cons. 5.0 Int. P. 1.0 Subs. 0.4 Soc. Sec. T. 3.0 O. Curr. T. 6.2 Investm. 1.4 Cap. T. 0.1 17.1
Local Authorities(3)						Cons. 8.6 Int. P. 0.6 Subs. 0 Soc. Sec. T. 0.1 O. Curr. T. 0 Investm. 1.6 Cap. T. 0 11.0	Cons. 8.6 Int. P. 0.6 Subs. 0 Soc. Sec. T. 0.1 O. Curr. T. 0 Investm. 1.6 Cap. T. 0 11.0
Social Security Funds(4)						Soc. Sec. T. 0.4	Soc. Sec. T. 0.4
Private Sector	Tax. 16.8 (Ind. Tax.) (5.7) S.S.C. 1.6 O. Rec. 1.4 19.8	Tax. 9.8 (Ind. Tax.) (4.9) S.S.C. 0.6 O. Rec. 2.6 11.9	Tax. 3.5 (Ind. Tax.) (3.5) S.S.C. 0.2 O. Rec. 3.6			Cons. 18.6 (Mages) (12.7) Int. P. 3.6 Subs. 1.8 Soc. Sec. T. 9.3 O. Curr. T. 0.3 Investm. 3.7 Cap. T. 0.2 37.5	Tax. 30.0 S.S.C. 3.3 O. Rec. 4.6 Cons. F.C. 1.5 39.4
Total Revenues	Tax. 16.8 S.S.C. 1.6 O. Rec. 1.4 19.8	Tax. 9.8 S.S.C. 0.6 O. Rec. 2.6 11.9	Tax. 3.6 S.S.C. 0.5 O. Rec. 1.6 5.7				Net Lending 1.9
Memorandum Items: (Cons. F.C.) (Net Lending)	(0.3) (0.7)	(0.5) (0.4)	(0.7) (-0.5)		(1.2)		

Notes: see Table 1.

about 25 per cent of total federal expenditures. Federal legislation is the basis for these programmes, and benefit and contribution rates are (where applicable) subject to federal control.

Federal payments to Crown corporations (i.e. public enterprises) equal roughly 3-4 per cent of total spending. Most major commercial Crown corporations are authorised to borrow directly in the capital market, subject to the approval of the Minister of Finance.

Table 3. Functional Classification of Federal Government Outlays
1986-87 estimated

	Envelope levels as percentage of total
Economic and Regional Development	9.5
Social Development	47.0
Fiscal Arrangements (i.e. transfers to other levels of government)	5.2
External Affairs and Aid	2.7
Defence	8.4
Parliament	0.2
Services to Government	2.9
Reserves	1.9
Lapse	-1.2
Total Programme Expenditures	76.6
Public Debt Charges	23.4
Total Expenditures	100.0

Source: 1986-87 Estimates, Part I, The Government Expenditure Plan (see Section II).

C. STRATEGIC AIMS AND GLOBAL NORMS

A key focus of current fiscal strategy is reducing the federal government deficit and arresting the growth in outstanding debt. The medium-term objective is stabilization of the federal debt-to-GNP ratio by the end of the decade. The budget deficit differs from total financial requirements in that it excludes loans, financial investments and advances and certain specified purpose accounts (such as the Canada Pension Plan and pension accounts for federal employees). In implementing this strategy, priority has been given to reducing expenditures. As well, tax policy changes are expected to generate increased revenues over the medium-term. Expenditure policies have been initiated to reduce total federal government spending from 26 per cent of GNP in 1984-85 to 21 per cent by 1990-91. To the end of the decade, the rate of growth in program expenditures (i.e. excluding public debt charges) will remain below the rate of growth in inflation. Under reasonable economic assumptions, the expectation is that the debt-to-GNP ratio will be stabilized by the end of the decade. Actuals to 1984-85, and expectations for 1990-91 are summarised in the following table.

Table 4. Fiscal Indicators

	Budget Deficit		Net Debt (% of GNP)
	(\$ billion)	(% of GNP)	
1980-81	13.5	4.5	28.9
1981-82	14.8	4.3	29.6
1982-83	27.7	7.7	35.8
1983-84	32.4	8.3	41.2
1984-85	38.2	9.1	47.3
1985-86	34.3	7.5	51.4
1986-87	29.1	6.0	53.8
1987-88	25.9	4.9	55.1
1990-91	22.0	3.5	56.2

Source: The Fiscal Plan, February 1986.

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

This section will provide a summary overview of the multi-year Fiscal Plan and Multi-Year Operational Plans (MYOP), and their relationship to the preparation of the annual expenditure budget within the framework of the Policy and Expenditure Management System. The top-down (fiscal planning) and the bottom-up (expenditure management) time horizons are interactive, with each process providing information leading to adjustments in the other.

The multi-year horizons for fiscal and expenditure planning have been designed to facilitate the identification of policy issues for Ministerial consideration and to provide for a thorough and continuous assessment of the requirements for, and consequences of, the funding of approved programmes. From the top-down perspective, the multi-year Fiscal Plan is the main instrument for establishing multi-year total expenditure levels and their allocation to resource envelopes. The fiscal planning process provides information about projected revenues and expenditures in which context overall government expenditure priorities are developed, evaluates sectoral policies and programmes in light of these priorities and assesses alternative means of achieving the appropriate fiscal stance. A result of the fiscal planning function is the determination of the policy sector resource envelopes. These envelopes are based on the projected costs of ongoing programmes in each policy sector – a status quo expenditure framework based in part on the most recently approved MYOP (see below) – and the policy initiatives expected to be undertaken as a consequence of a Cabinet priority-setting exercise including budget cutbacks. The Fiscal Plan, tabled in Parliament as part of the Budget, in principle includes information on the upcoming and three future fiscal years. Fiscal plans presented to Parliament in recent years have, in fact, included less or no information about future years. This overall plan includes reserves to

provide for new policy initiatives, future wage and price increases and other operational contingencies and forecast errors.

Multi-Year Operational Plans (MYOPs) are the main bottom-up expenditure management vehicles. They are used to determine, on a government-wide basis, the resources required for delivery of approved and on-going programmes over a three-year forward-planning period. Each department and agency provides a MYOP in March, which is reviewed by the Treasury Board Secretariat prior to decisions by the Treasury Board. These status quo planning documents include departments' requests for financial resources in constant price level and numbers of personnel needed to operate approved programmes and, therefore, following negotiation and decisions by Treasury Board, they are the baseline estimates of future year programme costs. This provides an important input into the fiscal planning exercise and the determination of resources to be allocated to the various policy sector envelopes.

The basic building blocks of the operational planning system are Planning Elements, which are discrete sub-divisions of a programme for which resource use can be identified in conformity with a department's internal management and control structures for resource planning and utilisation. There are currently roughly 300 Planning Elements. A Parliamentary vote can relate to one Planning Element, though it can also be divided into two (or more) Planning Elements. Planning Element resource allocations are expressed as Reference Levels, i.e. financial and human resources approved by the Treasury Board, to carry out policies and programmes approved by Cabinet.

The annual Spring review of Operational Plans considers estimates of the cost of programmes for the upcoming fiscal year and for two planning years, with the most recently approved Reference Level used as the base against which all changes are proposed. At this

stage, the second planning year is added (based on departmental requests; i.e. "bottom-up") to the MYOP planning horizon. The Reference Levels established for each Planning Element take account of workload changes, inter-element transfers, and policy approvals that have occurred since the previous MYOP review.

In October, each department submits to Treasury Board an update of the most recently approved Spring MYOP. Each Planning Element is adjusted, where appropriate, for allowances to offset increases in prices and other input costs in the upcoming year only; i.e. no provision is made for reference levels for future years' inflation at this time. The first year of these adjusted Reference Levels forms the basis for the preparation of the Main Estimates which are submitted for Parliamentary approval in February, approximately 1½ months before the start of the fiscal year concerned.

In the past two years, the Spring MYOP review has been deferred and combined with the Fall review. It is too early to tell whether this procedure will become a permanent feature of the expenditure management cycle.

The detailed future years' resource levels of the MYOP are not published, and thus not considered nor approved by Parliament. The public information on planned spending for years beyond the upcoming fiscal year is generally presented at the level of eight envelopes although forecasts may also be provided for a few major statutory programmes.

2. Calendar of main points of decisionmaking and activities

The fiscal year is the period 1st April (year t) through to 31st March (year $t+1$) and is usually designated as FY ($t/t+1$).

Months before start of FY($t/t+1$)	Main events and activities
(Year $t-1$)	
15-13 (January-March)	Departments prepare Spring MYOP requests and submit to Treasury Board (TB) by 31st March.
12-10 (April-June)	TB approves revised Reference Levels
9-6 (July-October)	Minister of Finance (MF) prepares recommendation re. updated fiscal plan and allocations by envelope for consideration by Cabinet Committee on Priorities and Planning. Departments prepare Fall updates to MYOPs and Main Estimates submissions to TB.
5-4 (November-December)	TB approves revised MYOP reference levels and detailed departmental budgets for Main Estimates.
(Year t)	
3-2 (January-February)	Budget submitted to Parliament by MF (Budget Day).
2 (February)	Main Estimates tabled in Parliament by President of TB.
1 (March)	Interim Supply voted by Parliament.
0 (1st April)	Fiscal year ($t/t+1$) begins
(+3) (Late June)	Parliament votes Full Supply on Main Estimates

3. The annual budget cycle

Departments finalise and submit their Spring Multi-year Operational Plans (MYOPs) to Treasury Board by March 31st. These plans propose any desired changes to the reference levels most recently approved for the upcoming and the following fiscal year. In addition, levels are proposed for the new planning year to be added to the planning horizon. Following review by Treasury Board Secretariat staff, reference levels are considered and approved by Treasury Board in late June. As noted above, in the past two years, this Spring MYOP review has been deferred and combined with the Fall review.

During the period July through September, the Minister of Finance considers in consultation with the President of the Treasury Board, any necessary or desirable changes to the overall Fiscal Plan and envelopes. These changes take into account, *inter alia*, updated economic outlooks, the results of the most recent review of MYOPs and anticipated spending pressures. The recommendations of the Minister of Finance are considered by the Cabinet Committee on Priorities and Planning in the Fall, and an updated fiscal plan approved.

During this same period, departments prepare their Fall MYOP and Main Estimates submissions, due at Treasury Board in October. These documents request changes to the most recently approved reference levels for the three future fiscal years required because of operational pressures, recently approved new or enhanced programmes and adjustments to reflect wage and price changes during the upcoming year only. In recent years budgets have been adjusted for wage changes only; virtually no adjustment has been permitted for other price changes. Treasury Board considers and approves revised multi-year reference levels, and the detailed Main Estimates levels for the upcoming year, in December.

In January or February, the Minister of Finance submits his Budget to Parliament, laying out the overall fiscal plan of the government, and providing notice of any tax changes the government will be proposing in coming months.

In February, the President of the Treasury Board tables the Main Estimates in Parliament. These detailed expenditure plans form the basis for Parliamentary consideration and vote on funds to be appropriated for the forthcoming fiscal year.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

At any one time, there are likely to be a number of reviews of departmental or programme effectiveness or efficiency underway. This may arise from internal departmental needs, from Treasury Board consideration

of budget requests for on-going programmes or from the need to respond to Ministerial requests for major policy reviews in selected areas. Departments are required to develop 5-year "evaluation plans" for the systematic review and assessment of their programmes' operations and results. The results of major policy reviews and evaluation studies are an element in the consideration of possible changes to the multi-year expenditure plan.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

The multi-year spending plans include reserves to provide for contingencies and new initiatives. A Central Reserve for Statutory Overruns is intended to provide for unexpected cost increases in major statutory (entitlement) programmes mostly accounted for by transfer payments to provinces and individuals; this reserve is not intended to fund cost increases due to policy changes. Each envelope may include policy reserves, intended to cover the multi-year costs of any new or enhanced programmes agreed by the respective Policy Committee of Cabinet during a fiscal year. Finally a small Operating Reserve, with limited access centrally controlled by Treasury Board, is intended to fund unavoidable increases in the cost of approved programmes. In the most recent expenditure plan, for 1986-87, reserves allocated to envelopes equal 1.0 per cent of total budgetary expenditure, and the central reserves for adjustments to statutory and other programmes represent 1.6 per cent. In addition to these reserves, provision is made within the expenditure plan for those wage and price adjustments which may be approved in the future by Treasury Board. As a general rule, departments are expected to live within the appropriations granted by Main Estimates each year; all exceptions must be approved by Treasury Board and, ultimately Parliament (as noted earlier statutory programmes are an exception to this requirement).

Regular monthly accounting statements are prepared centrally (Department of Supply and Services) on the basis of departmental reports. However, these monthly trends and detailed statements of actual spending to date are not rigorously monitored by Treasury Board. Nor is a system of monthly or quarterly apportionment applied to appropriations. Overall monthly cash requirements are monitored and forecast by the Department of Finance for purposes of the government's debt management programme.

There is no formal requirement for the Minister of Finance to provide an update report to Parliament on the most recently approved fiscal plan, although he may decide to do so on occasion. As noted, Supplementary Estimates are tabled by the President of the Treasury Board throughout the fiscal year when required to seek

Parliamentary approval of revisions to individual appropriations. The Supplementary Estimates are the manifestation in the Parliamentary supply process of the use of the reserves set aside in the Expenditure Plan for new policy initiatives and for contingencies.

2. Managerial discretion

An appropriation provides the right to spend funds up to the approved vote level; no central or Parliamentary approval is required to spend less. Departments can spend more on a given vote only with the approval of Treasury Board and Parliament. Thus all transfers of funds between votes require Parliamentary approval. In addition, Treasury Board applies certain general restrictions below the level of spending detail specified in a vote; for example, separate allotments (subdivisions) are created within votes for wages, major capital funds and all other expenses; other special allotments may be established by Treasury Board to control departmental access. Access to allotments "frozen" by the Treasury Board, and all transfers of funds between allotments within a vote require Treasury Board's, but not Parliament's, approval.

Appropriations lapse at the end of the fiscal year for which they were granted; that is, there is no provision for the carry-forward of spending authority. Of course this lack of systematic or automatic authority does not preclude the Treasury Board from approving an increase to future years' reference levels charged against the Operational Reserve, offset by an equivalent "freeze" on allotments in the year-in-progress. Such a transaction does not bind Parliament however; the future years level is still subject to Parliamentary approval. The government's expenditure plan for a given year explicitly recognises that a portion of the appropriation authority granted by Parliament will lapse.

Although Ministers and their departments will be given greater flexibility in reallocating approved resources and increased delegated authorities in many areas that required prior Treasury Board approval, there will be increased emphasis on departmental accountability, in terms of performance and results within an approved accountability framework, for the use of these resources. Departments also have to face greater pressures to live within their budgets. The government's Operating Reserve has been significantly reduced and departments generally will have less access to it. They will have to respond to increased workload pressures by improving productive efficiency or by reallocating resources through reordering departmental priorities. Reductions in the Policy Reserve for new initiatives also have been made. This creates a disincentive to programme entrepreneurship as departments will experience greater pressure to fund new initiatives by reallocating existing resources. In an indirect way, reduced policy reserves impose a greater emphasis on prioritisation of programmes in light of their effectiveness, and on improved effectiveness evaluation procedures.

Cost Recovery

The federal government has developed a policy to recover costs of operations, where appropriate, from beneficiaries of public services. It is anticipated that a greater application of user fees will help rationalise service deliveries, by curbing excess demands that arise from subsidisation of costs, and bring marginal benefits and costs into greater proximity.

It is not the intention of the federal government to use recovered costs to finance new or unrelated services, but to credit the Consolidated Revenue Fund or to reduce vote-netted appropriations. In addition, all submissions made to the Treasury Board for new or enhanced services must address the prospects for cost recovery.

G. CURRENT REFORMS

Increased Ministerial Authority and Accountability

The federal government is implementing a revised regime of Increased Ministerial Authority and Accountability (IMAA). This initiative essentially represents a reinforcement of pre-existing trends toward deregulation of ex-ante input controls and improvements in departmental management capabilities. Experience over a period of years has led to the strong impression that strict centrally-administered ex-ante controls had provided disincentives for management practices directed to improving efficiency in operations. Moreover, the present restraint environment requires greater flexibility in resource allocation to accompany tighter controls over total resources.

H. FURTHER INFORMATION

All documents are published in both French and English.

Documents related to the annual budget

The fiscal year is the period from 1st April year (t) to 31st March year (t+1).

1. Budget Papers. A number of documents are published on Budget Day (January/February, year t) by the Minister of Finance; these provide information on the economic outlook, details of the multi-year fiscal/expenditure plan; details of specific tax changes proposed, and a variety of other background analysis or options papers related to current policy issues or proposals.

2. *Estimates*. A large number of documents are published on the occasion of the tabling of Main Estimates in February year (t) by the President of the Treasury Board. These are:

- *The Government Expenditure Plan*, Part I of the Estimates, which provides a summary of the multi-year spending plans and of major elements of Main Estimates;
- The so-called "*Blue Book*", Part II of the Estimates, providing the detailed information on the upcoming year's spending which forms the basis for the appropriation bill considered by Parliament;
- *Departmental Expenditure Plans*, some 70 documents, one for each department, forming Part III of Estimates and providing further details of departmental structure, programmes and spending as well as performance indicators.
- *Supplementary Estimates* provides the details of all proposed changes to existing appropriations

(published as required; 5 to 6 times a year recently).

Other documents

3. *Public Accounts*, detailed audited year-end financial statement for the government and individual departments, generally published in November, year (t+1).
4. *Report of the Auditor General*, annual report to Parliament on the results of the Auditor General's on-going reviews of departmental operations and financial management practices and systems, November, year (t+1).

Point of contact

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DENMARK

Any changes which may have taken place in Denmark since 1st July 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION-MAKING

1. Political and organisational structure of government

Denmark is a unitary state, with Faroe Islands and Greenland having home rule within the Kingdom. Apart from central government, there are two levels of local governments: counties and municipalities.

Central government is organised in 21 ministries, each headed by a minister. Each minister is a member of Cabinet. There are no junior ministers, political advisors or politically appointed civil servants. In most cases a ministry is made up of one often quite small department and a number of executive agencies and institutions. Though their autonomy varies in practice, these agencies are all subordinate to the department and the minister. A few ministries, among which the Ministry of Finance, are organised in more than one departmental portfolio.

The single-chamber Parliament has 179 members, and 11 parties are represented at present. The last election was in January 1984 and the next election will be in December 1987 at the latest. However, for the last two decades, there have been on average only two years between elections. The present government, which took office in Autumn 1982, is a minority coalition of four non-socialist parties. There is no formal, published coalition agreement. No majority government has been in place since 1971.

2. Main budgetary organs

The Ministry of Finance (MF) is composed of the Department of the Budget, the Department of Administration and the Department of Salaries and Pensions. In addition, there are a number of subordinate agencies, among these a central payment and accounting agency.

The Budget Department is the largest of the three departments. It is concerned with both sides of the budget and with economic policy. The Budget Department is composed of two policy branches: the Economic

Policy and Debt Management Branch; and the Budget and Planning Branch (BP). The BP-branch is responsible for public expenditure planning and central government budgeting and expenditure control (including non-tax revenues, which are on the expenditure budget¹⁾). It also controls manpower as far as numbers and functions are concerned.

Total personnel of the BP-branch is about 70. It is divided into 6 divisions or groups. Each is responsible for both the expenditure of a number of ministries and for one or several horizontal functions (e.g. general expenditure policy, manpower policy, investment planning, information technology etc.). Each group is staffed by an assistant secretary and on average 5 analysts (economists or political scientists) and supporting staff.

3. Role of Prime Minister and Cabinet

The major decision of Cabinet in budgetary matters is the allocation of ministerial expenditure blocks (or expenditure limits) in the initial stage of the budget preparation. Further involvement of Cabinet in budgetary decision-making is mostly of a more formal nature.

Most issues are settled either bilaterally by the Minister of Finance or in the Cabinet Expenditure Committee, which is headed by the Minister of Finance and made up of 6 of the most important spending ministers, accounting for 75% of total central government expenditure.

Issues that cannot be settled in this way are referred to the Cabinet Co-ordination Committee, though this rarely happens. This committee is headed by the Prime Minister and reflects the mandates of the four coalition parties; the Minister of Finance and the Minister of Economic Affairs are among its members. Exceptionally, issues may be referred to full Cabinet.

4. Role of Parliament

The Budget Bill (Finanslovsforslag) goes through three plenary readings in Parliament, as does any other bill. Between readings it is examined in the Finance

Committee, which scrutinises the whole budget. No sectoral committees are involved.

Parliament only takes one vote on the Budget Bill but this is preceded by votes on changes to individual accounts, so that the proposal on which the final vote is taken may differ from the Budget Bill first presented by Government. Amendments usually number several hundreds. Parliament controls expenditure at the level of more than 1000 individual accounts.

Following a long-standing practice, the Finance Committee may authorise supplementary "appropriations" during the implementation of the budget. Normally,

such decisions are approved by Parliament only after the end of the fiscal year. Any member of Parliament may, however, appeal an issue to Parliament and this is sometimes done.

All expenditure, including entitlements authorised under separate legislation, is annually appropriated; tax revenue estimates have to be approved as well. Multi-year estimates are not approved by Parliament.

If Parliament has not passed the Budget Bill before the start of the new fiscal year, a provisional Budget Bill is enacted, which enables government to continue activities on the basis of the previous budget act.

Table 1
General Government Figures
In % GDP, 1984 (1) (2) (3)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 8.2 Int.P. 9.2 Subs. 2.7 Soc.Sec.T. 1.5 O.Curr.T. 1.8 Investm. 0.7 Cap.T. 0.9 25.0	Cons. 8.2 Int.P. 9.2 Subs. 2.7 Soc.Sec.T. 6.6 O.Curr.T. 18.0 Investm. 0.7 Cap.T. 0.9 46.3
			O.Curr.T. 16.2	Soc.Sec.T.: Curr. 5.1		
Local Authorities					Cons. 17.7 Int.P. 0.5 Subs. 0.6 Soc.Sec.T. 10.5 O.Curr.T. 0.1 Investm. 1.4 Cap.T. 0.3 O.G.Acc. -0.2 30.9	Cons. 17.7 Int.P. 0.5 Subs. 0.6 Soc.Sec.T. 10.5 O.Curr.T. 0.7 Investm. 1.4 Cap.T. 0.3 O.C.Acc. -0.2 31.5
			O.Curr.T. 0.6			
Social Security Funds					Cons. 0.2 Soc.Sec.T. 5.2 Cap.T. 0.1 5.5	Cons. 0.2 Soc.Sec.T. 5.2 O.Curr.T. 0.1 Cap.T. 0.1 6.3
		O.Curr.T. 0.8				
Private Sector		Tax. 31.9 (Ind.Tax.) (..) S.S.C. 0.7 O.Rec. 5.5 38.1	Tax. 14.1 (Ind.Tax.) (..) O.Rec. 2.1 16.2	S.S.C. 1.2 O.Rec. 1.2 2.4	General Government (Consolidated)	
					Cons. (Wages) 26.1 (18.7) Int.P. 9.6 Subs. 3.3 Soc.Sec.T. 17.2 O.Curr.T. 1.9 Investm. 2.1 Cap.T. 1.3 O.G.Acc. -0.2 57.5	Tax. 45.9 S.S.C. 1.9 O.Rec. 8.8 Cons.F.C. 0.6 57.3
Total Revenues		Tax. 31.9 S.S.C. 0.7 O.Rec. 6.9 39.5	Tax. 14.1 O.Rec. 18.2 32.3	S.S.C. 1.2 O.Rec. 6.3 7.5		Net Lending -4.2
Memorandum Items:						
(Cons.F.C.)		(0.3)	(0.3)			
(Net Lending)		(-6.5)	(1.1)	(1.2)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Data prior to 1976 refer to fiscal years beginning 1st April.

Source: OECD, Annual National Accounts.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

General Government expenditure is among the highest in the OECD area. Central Government net lending has increased considerably in the 10-year period since 1974, though it is expected to be reduced to zero in 1986.

Unemployment benefits and early retirement pay are formally paid out by private unemployment insurance funds. However, except for administrative expenditure, their resources are controlled 100 per cent by central government. Contributions, which cover about one third of expenditure on benefits, are determined by law. All other major social security cash benefits e.g. old age and

disability pensions, child allowances, sickness benefits, are paid out by local governments, but financed by central government, except for marginal local government contributions to a few programmes.

All local government activities are regulated by legislation, but in most areas local government has considerable freedom in resource allocation and decisions on levels of service provisions. The vital revenue base of local governments is the proportional income tax. They are free to decide tax rates, but Government has in recent years strongly recommended that they do not raise them. Property taxes on land are only of marginal importance, as is borrowing which has been severely restricted for the last decade. Special grants or other cost-sharing arrangements are of declining importance, as the policy is to convert them to general grants. From 1987, they will be confined to a few programmes

Table 2
General Government Figures
In % GDP, 1974 (1) (2) (3)

Notes: see table 1.

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 9.8 Int.P. 0.5 Subs. 3.4 Soc.Sec.T. 1.4 O.Curr.T. 0.9 Investm. 0.9 Cap.T. 0.8 O.G.Acc. 0.2 17.9	Cons. 9.8 Int.P. 0.5 Subs. 3.4 Soc.Sec.T. 2.9 O.Curr.T. 16.0 Investm. 0.9 Cap.T. 0.9 O.G.Acc. 0.2 34.6
			O.Curr.T. 15.1 Cap.T. 0.1 15.2	Soc.Sec.T.: Curr. 1.5		
Local Authorities					Cons. 14.8 Int.P. 0.8 Subs. 0.3 Soc.Sec.T. 10.1 O.Curr.T. 0.1 Investm. 3.0 Cap.T. 0.3 O.G.Acc. 0.2 29.6	Cons. 14.8 Int.P. 0.8 Subs. 0.3 Soc.Sec.T. 10.1 O.Curr.T. 0.3 Investm. 3.0 Cap.T. 0.3 O.C.Acc. 0.2 29.8
		O.Curr.T. 0.2				
Social Security Funds					Soc.Sec.T. 1.5	Soc.Sec.T. 1.5 O.Curr.T. 0.1 1.6
		O.Curr.T. 0.1				
Private Sector	Tax. (Ind.Tax.) 31.3 S.S.C. 0.1 O.Rec. 3.3 34.7	Tax. (Ind.Tax.) 12.4 S.S.C. 2.0 O.Rec. 14.4		S.S.C. 0.5 O.Rec. 0.3 0.8	General Government (Consolidated)	
					Cons. 24.6 (Wages) (17.0) Int.P. 1.3 Subs. 3.7 Soc.Sec.T. 13.0 O.Curr.T. 1.0 Investm. 4.0 Cap.T. 1.1 O.G.Acc. 0.4 49.0	Tax. 43.8 S.S.C. 0.6 O.Rec. 5.7 Cons.F.C. 0.4 50.4
Total Revenues	Tax. 31.3 S.S.C. 0.1 O.Rec. 3.6 35.0	Tax. 12.4 O.Rec. 17.2 29.6		S.S.C. 0.5 O.Rec. 1.8 2.3		Net Lending 1.4
Memorandum Items: (Cons.F.C.) (Net Lending)	(0.2) (0.6)	(0.2) (0)		(0.7)		

concerning social security transfers and job-creation. General grants have been halved in real values since 1983 in order to offset growth in local government tax revenue.

The gross expenditure of the Post and Telegraph Office, State Railroads and a few other enterprises is on the central government budget. Public ownership of enterprises is limited outside communication and energy sectors. It was further reduced in 1985 by substantial sales of shares. Enterprises in the energy sector are either on local government budgets or off-budget.

Table 3. Functional Classification
of Central and Local Government Expenditure (1986)
As percentage of total

General Administration	7.1
Social Services	36.7
Health	9.5
Education and Science	13.4
Culture and Church	2.1
Transport and Communication	8.2
Housing and Environment	4.8
Public Utilities	3.4
Industry and Labour Market	5.9
Justice	1.8
Defence	4.1
Greenland and the Faroe Islands	1.1
Pension for civil servants	1.9
Reserves and Unallocated Costs	0.0
Total	100.0

Source: Public Expenditure White Paper, Annex, Table 2.1 (see Section H)

C. STRATEGIC AIMS AND GLOBAL NORMS

Expenditure targets have traditionally been expressed in terms of real growth in public expenditure, as defined in the so-called Public Expenditure Budget. This budget covers 4 years and is constructed by consolidating central and local government's approved expenditure budgets. It therefore includes a number of public enterprises but excludes interest payments which are treated as negative revenues. The current medium-term expenditure target, operative since 1983, is zero real growth in public expenditure.

The importance of this medium-term expenditure target has declined in recent years for two reasons. First, the reduction of the central government deficit became the major budgetary target in 1982. Central government deficit is defined to cover the current, investment (including capital transfers) and (gross) lending accounts. The target adopted in 1983 was to eliminate the central government deficit by 1990. This target is expected to be achieved already in 1986 and a surplus is forecast for future years. Secondly, annual targeting has since 1985 been focused on the net expenditure of

central and local governments respectively, and not on total public expenditure. The main reason for this change was the introduction of ministerial spending limits (cf. section D), which makes individual ministers responsible for the total budget appropriated to them by Parliament, including non-tax revenues and special grants to local governments.

The following table indicates outturns for 1980-85 and an estimate for 1986.

Table 4. Fiscal Indicators, 1980-1986
Billion D.Kr., current prices

	1980	1981	1982	1983	1984	1985	1986 (estimate)
Net expenditure of central government	125	146	170	185	186	186	186
Central government deficit	18	34	53	54	44	26	0

Source: Finance White Paper, 1983 and following years, Smærskilt no. 50, May 1986 (see section H)

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year estimates (MYE) are only published for expenditure and non-tax revenues. They are first published in August in an appendix to the Budget Bill, which shows comparable figures for the previous year (accounts t-2), the current year (appropriations t-1), the budget year (year t) and three forward years (MYE). Their function is to provide information on multi-year consequences of the budget, rather than controlling departmental spending apart from the multi-year limits on discretionary expenditure (see Section D). They are in the price and pay level of the budget year. Unemployment benefit estimates are based on technical assumptions. MYE are not voted on in the final vote on the Budget Bill. A revised appendix is published shortly after the publication of the Budget Act. These final MYE reflect the future expenditure flowing from the measures approved by Parliament on the Budget Bill and not necessarily medium-term government policy.

The MYEs are published in the same degree of detail as annual appropriations, i.e. more than 1000 headings.

2. Calendar of main points of decisionmaking and activities

The financial year (FY(t)) is the calendar year (year t).

Months before start of FY(t)	Main events and activities
(Year t-2)	
13 (December)	An exact expenditure target for central government is decided in Cabinet and announced in Parliament.
(Year t-1)	
13-11 (December-February)	MF prepares and negotiates proposal for ministerial spending limits and budgetary guidelines.
11 (End of February)	Cabinet decides ministerial spending limits.
10-9 (March-April)	Ministries prepare draft budgets which are submitted to MF early May.
8-7 (May-June)	Draft budgets are scrutinised by MF and decisions taken on how to eliminate excesses.
5 (August)	Finance Bill and related documents presented to Parliament.
4-1 (September-December)	Finance Bill goes through readings and amendments in Parliament before final vote middle of December.
(Year t)	
0 (1st January)	Start of financial year t

3. The annual budget cycle

The preparation of the annual budget begins at about the time Parliament passes the preceding Budget Bill. The revised multi-year estimates form the basis of the preparation of the new budget.

Since 1984, the first step has been the decision and publication of targets for both total central government and local authorities net expenditure. These targets are derived from the zero-real growth target with respect to public expenditure. The next major step is the breakdown of the target into ministerial blocks.

After bilateral probes, the Minister of Finance proposes a set of one-year ministerial spending limits, each enveloping all net expenditure of one ministry. Except for repricing the first forward year of the multi-year estimates, spending limits are influenced by policy changes resulting in additional expenditure and by (tentatively) agreed cutbacks. The ministerial spending limits (literally: "comprehensive frames") are decided in Cabinet in a 1-2 day meeting in February. This is the major annual reallocation of resources between ministries.

By this procedure, the expenditure target is split up in less than 25 ministerial blocks 10 months before the start of the financial year. Once the limits are decided, each minister is expected to accommodate all cost changes (including increased expenditure on entitlements – except unemployment benefits – and decreased non-tax revenues) and to fund all policy changes within the allocated block. With few exceptions, ministers are free to arrange their budgets as long as they keep within the allocated blocks and estimate expenditures realistically.

General grants and unemployment benefits are not included in any ministerial block, since policy is that savings, due to economic recovery, should not be spent on other items. Since 1984 such "cyclical" savings have roughly cancelled out price and pay increases so that

actual total expenditure has been kept almost constant in current prices.

Within the ministerial spending limits, major limits are imposed on discretionary expenditure, i.e. roughly a quarter of total expenditure that is not entitlements. These "secondary" limits are decided in Cabinet, as part of the "comprehensive frames".

Multi-year limits on discretionary expenditure

These limits delimitate ministerial blocks for discretionary expenditure in the budget years and three multi-years. Major commercial enterprises are treated separately on a net expenditure basis. Only the total block, and not individual programmes, are repriced and rolled forward by general mechanisms at the start of each new budget round. The rolling-forward now includes a "squeeze" in departmental multi-year limits, computed from productivity targets for various types of activities, as each new year is added.

Multi-year manpower limits

In addition to the expenditure limits, each ministry is subject to a manpower limit that specifies number of man-years in the budget year and three forward years.

Limits on pay

Each ministry is also subject to a one-year limit on total expenditure on pay. Its main purpose is, in combination with the manpower limit, to guard against "inflation of grades".

The ministries present their draft budgets to MF in early May. The main focus of MF scrutiny is on the realism of entitlement estimates, requests for reallocations between discretionary and other expenditure, the realism and feasibility of proposed cutbacks, and options for further cutbacks in those cases where the draft budget of a ministry exceeds the agreed expenditure limit.

During summer and autumn, efforts are increasingly centred on securing support in Parliament for proposed legislative action. Usually this leads to a number of changes in the draft budgets and the spending limits of the ministries. Parliament usually takes the final vote mid-December.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

The Department of Administration selects programmes or agencies for review within broad policy areas; each area is touched once every 4-5 years. There are no formal links to the budget cycle, but analysts from the Budget Department usually take part in these reviews.

F. IMPLEMENTATION OF THE BUDGET

I. Major instruments of in-year control

Since 1984, in-year control has been centred on the ministerial spending limits. The emphasis is on making the reallocations necessary to contain actual spending within the limit.

Three times a year – 1st May, 15th September, end November – the ministries prepare a comprehensive report on spending developments and likely future trends. If major overruns are envisaged, which almost invariably would be due to changing estimates of entitlements, the minister is obliged to put forward a proposal for offsetting cutbacks, including suggestions for new legislation.

The accommodation of expenditure developments from the decision on ministerial spending limits 10 months before the start of the financial year and until it ends 22 months later is treated as a continuous process. Due to the limited size of discretionary expenditure, and the productivity squeeze imposed on this type of expenditure by the multi-year limits, the reallocations needed to offset new developments usually require legislation.

Apart from gross-expenditure cutbacks in the Ministerial spending limits, two other sources of offsets are allowed for: first, non-tax revenues can be increased, as the spending limits are defined as limits on net expenditure; secondly, if new legislation or departmental orders induce direct savings to Local Governments, general grants are reduced correspondingly and the Ministerial spending limit in that case can be increased.

2. Managerial discretion

In principle, appropriations are on a gross-basis, but three types of net appropriation are used:

- i) All agencies may use minor additional revenues without prior authorisation;
- ii) Non-commercial agencies with secondary commercial activities may expand these according to simple rules of price calculation that guards against distortion of competition. Such activities are not subject to manpower limits;
- iii) Most commercial enterprises on the central government budget are controlled by a predetermined net financial result target.

To some extent, ministries are allowed to transfer funds between appropriations on current (excluding transfers) expenditure without previous approval by MF. Where authorisation is needed, the procedures are quite flexible.

Funds appropriated to specific investment projects may be carried forward to future years if projects are delayed. Unobligated balances on current expenditure may be carried forward up to four years, provided their future use on a specific procurement or project is specified on the end-year supplementary appropriation bill (February, year $t+1$).

G. CURRENT REFORMS

The present budgetary system is much influenced by a budget reform begun in 1984. Currently, the following remaining initiatives are being implemented:

– *Budgeting in current prices*

Until now, budgeting has been in volume, i.e. the price level of January year $t-1$. Agencies are allowed to exceed appropriations by documented price and pay increases. As the Minister of Finance is the sole negotiator of salaries, this system has worked but it is now being changed in order to increase the incentives of managers to economise. Starting FY 1987, budgeting is done in cash terms, i.e. the expected actual price level of the financial year.

– *Financial management reform*

Top-level management of ministries is being improved, centred on concepts of corporate management. Ministries are given access to some of MF's central systems and new facilities for departmental management are being developed. At the same time, financial management of agencies and institutions is also being improved, for instance by introducing new decentralised accounting and budget systems.

- *Information on productivity*
The supporting budget information presented to Parliament is being increased, for example, developments in productivity indicators receive more attention now.
- *New budget structure*
In addition, a new structure for the Budget Bill is being studied. The general aim is a better presentation of budget information by combining clearly defined areas of ministerial responsibility with a more functional presentation of expenditure.

H. FURTHER INFORMATION

Documents related to the annual budget

The financial year (FY) is the calendar year (year t).

1. Public Expenditure White Paper (*Budgetredegørelse*), includes 4-year Public Expenditure Budget and Public Sector Investment Programme, analysis of medium and long-term expenditure trends and policy statements, May year (t).

2. Budget Bill (*Finanslovsforslag*) with Appendix I on multi-years and Appendix II on assumptions, productivity etc., August, year (t-1).
3. Budget Pamphlet (*Budgetpjece*), popular version of Budget Bill, August, year (t-1).
4. Finance White Paper (*Finansredegørelse*), includes economic policy, debt management and analysis of Budget Bill and policy statements, December, year (t-1).
5. Budget Act (*Finanslov*), with updated Appendix I on multi-year estimates, January, year (t).
6. Supplementary Budget Bill (*Forslag til Tillægsbevillingslov*), February, year (t+1).

Other documents

7. Booklets (*Småtryk*), 5-6 each year and often produced at very short notice. A few are in English text, notably "Government Finances in Denmark", usually published once or twice a year.
8. Budget Manual (*Budgetvejledning*), consolidated each 3-5 years, latest issue 1985.

Point of contact

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NOTE

1. Expenditure budget is defined to cover all expenditure, except interest payments on government debt and non-tax revenues. The concept is used by the budget office and is not reflected in the organisation of the budget bill. The revenue budget includes all other resources and expenditures.

FINLAND

Any changes which may have taken place in Finland since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

Finland is a unitary state. There are three layers of government: state or central level, the municipalities and in between them strong municipal associations controlled by the lower level and relatively weak county administration steered from the central level.

Central government functions are organised mainly around the Prime Minister's Office and 12 ministries. Ministries have in general one Minister (4 ministries have 2 Ministers); the secretary-general of each department is a non-political appointment, as is the rest of the departmental personnel. At present, the number of Ministers is seventeen. They form the Council of State, which acts as the Cabinet.

Parliament has one chamber with 200 members. There are 10 political parties or other Parliamentary groups. The largest party (Social Democrats) has 57 seats. There are usually coalition governments: the present government is supported by four parties and has a majority in Parliament. The elections are regularly held in March every fourth year. The next elections will be held in March 1987.

2. Main budgetary organs

The central role in all budgetary matters is played by the Ministry of Finance (MF). MF deals with expenditure, taxation (or revenue) and borrowing policies, as well as with general financial and economic policy formulation and, additionally, organisational and State employer matters.

Within MF, the Budget Department, among other things, coordinates budgetary activities and is especially involved in the expenditure side of the budget and non-tax revenues. The number of personnel in the department is 60, about forty of them having an academic degree. The Budget Department consists of

four divisions. The largest of them is the Fiscal Policy Bureau, which is responsible for budget preparation and to a large extent also for budgetary control.

3. Role of President, Prime Minister and Cabinet

The Council of State (Cabinet) steers the economic and financial policy-making with the help of two permanent Cabinet Committees, viz. the Committee on Economic Policy and the Finance Committee, both chaired by the Prime Minister. The Minister of Finance is a member of both committees. The Committee on Economic Policy discusses important economic policy matters and *inter alia* prepares the annual Government Statement on Economic Policy in which the Cabinet informs Parliament on the general economic and fiscal policy guidelines to be followed in its budget proposal next autumn. The Finance Committee of the Cabinet steers the implementation of the budget and other Ministerial decision-making in important economic and financial aspects. The Council of State as a whole discusses and decides the Budget proposal prepared by MF in its Budget conference chaired by the Prime Minister (late August).

The President does not actively participate in the budget preparation, but formally submits the Budget proposal to the legislature. The Budget proposal is presented to Parliament by the Finance Minister in his budget speech on behalf of the Government.

4. Role of Parliament

The Parliamentary treatment of the budget starts with a general debate, after which the proposal is sent to the Finance Committee of the Parliament. A detailed scrutiny takes place at the Subcommittees of Finance, after which the Finance Committee as a whole prepares its report on the Budget proposal. The role of the sectoral Special Committees is quite modest compared to the Finance Committee in the Parliamentary budget process. The Finance Committee is responsible for balancing the budget, if changes are made to the Government proposal. After the Finance Committee has given

FINLAND

its report, the proposal is discussed and voted upon. Parliament may add to expenditure, but either an expenditure cut or a tax or borrowing increase has to accompany the expenditure increase in order to formally balance the budget. Parliament does not approve multi-year expenditure plans.

All expenditure, including entitlements, is appropriated annually. The budget is organised by ministries, subdivided by agency (or function) and finally, by kind of economic activity (salaries, equipment, construction, transfers, lending etc.). The number of expenditure items voted upon is slightly less than 1400.

If Parliament has not passed the Budget at the beginning of the fiscal year, a continuation bill, based on

the previous budget, is passed to enable the Government to continue the routine activities until the Budget is passed and signed.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

The increase of general government expenditure has been quite modest over the 10-year period since 1974 as compared to other OECD countries. Though general government and central government budget surpluses (as a percentage of GDP) have decreased by about 4

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds (3)	Private Sector	Total Expenditure
Central Government						
					Cons. 6.0	Cons. 6.0
					Int.P. 1.2	Int.P. 1.2
					Subs. 3.0	Subs. 3.0
				Soc.Sec.T.: 1.1	Soc.Sec.T. 2.0	Soc.Sec.T. 3.2
			O.Curr.T. 6.0	O.Curr. 1.1	O.Curr.T. 2.5	O.Curr.T. 8.5
			Cap.T.(4) 0.3		Investm. 1.2	Investm. 1.2
			6.3		Cap.T.(4) 0.2	Cap.T.(4) 0.5
					O.G.Acc. 0.1	O.G.Acc. 0.1
					16.4	23.8
Local Authorities						
					Cons. 12.9	Cons. 12.9
					Int.P. 0.4	Int.P. 0.4
					Subs. 0.1	Subs. 0.1
				Soc.Sec.T.: 0.4	Soc.Sec.T. 0.4	Soc.Sec.T. 0.8
			O.Curr.T. 0.2	O.Curr. 0.4	O.Curr.T. 0.9	O.Curr.T. 1.1
					Investm. 2.1	Investm. 2.1
					Cap.T.(4) 0	Cap.T.(4) 0
					O.G.Acc. 0.1	O.G.Acc. 0.1
					16.9	17.4
Social Security Funds (3)						
					Cons. 0.6	Cons. 0.6
					Soc.Sec.T. 5.9	Soc.Sec.T. 5.9
					O.Curr.T. 0.2	O.Curr.T. 0.2
					6.6	6.7
Private Sector						
		Tax. 21.4	Tax. 8.8		General Government (Consolidated)	
		(Ind.Tax.) (14.1)	(Ind.Tax.) (0)		Cons. 19.5	Tax. 30.2
		S.S.C. 0.1		S.S.C. 4.8	(Mages) (13.2)	S.S.C. 4.9
		O.Rec. 1.9	O.Rec. 1.7	O.Rec. 0.4	Int.P. 1.6	O.Rec. 4.0
		23.3	10.5	5.2	3.2	Cons.F.C. 1.1
Total Revenues						
		Tax. 21.4	Tax. 8.8		Soc.Sec.T. 8.3	
		S.S.C. 0.1		S.S.C. 4.8	O.Curr.T. 3.7	
		O.Rec. 2.0	O.Rec. 8.0	O.Rec. 1.9	Investm. 3.3	
		23.5	16.5	6.7	Cap.T.(4) 0.2	
Memorandum Items:					O.G.Acc. 0.2	
(Cons.F.C.)		(0.4)	(0.8)		39.9	Net Lending 0.2
(Net Lending)		(0)	(0.2)	(0)		

1. For explanation and comments, see the Introduction to Part II and the remainder of this section.

2. Items do not necessarily add to totals due to rounding off.

3. A large part of the social security system is in the hands of private insurance institutions.

4. Capital transfers paid are reported net of capital transfers received.

Source: OECD, Annual National Accounts.

per cent, the general government balance even being in surplus in 1984.

The share of the local authorities of total final demand of the general government is about two thirds. More than a third of their revenue consists of transfers from the State, which are mainly expenditure-related, and linked to specific functions mandated to them by law (educational, health and other welfare services). Their main source of revenue is a proportional income tax. Rates are determined by the local authorities themselves. The local authorities have a free access to domestic capital markets. The municipal associations mainly perform such tasks of local authorities, where co-operation is essential due to economies of scale or similar reasons (mainly regional hospitals, health centres, and certain vocational education). They are financed through transfers from member local authorities and the State.

The Social Insurance Funds are only partially included in the public sector. The National Pensions Institute manages the basic pensions and sickness insurance which are mainly financed through contributions made by the employers and the insured. The earnings-related and partly funded compulsory employee pensions scheme in the private sector is financed by employers, and mainly managed by several private insurance companies. The earnings-related pensions scheme of the State civil servants is included in the State budget on cash basis without any funding arrangements, and financed by tax revenues. The pensions scheme of local authorities' personnel is also unfunded and managed by a joint institution of local authorities. Both the benefits and contribution rates of all these compulsory pensions systems are determined by respective laws.

Social security schemes, such as child allowances, war veteran pensions and about two thirds of unemployment

Table 2
General Government Figures
in % GDP, 1974 (1)(2)

Notes: see table 1.

From	To	Central Government	Local Authorities	Social Security Funds(3)	Private Sector	Total Expenditure
Central Government					Cons. 5.4 Int. P. 0.3 Subs. 2.9 Soc. Sec. T. 1.3 O. Curr. T. 2.2 Investm. 1.6 Cap. T. (4) 0.1 O. G. Acc. 0.1 14.0	Cons. 5.4 Int. P. 0.3 Subs. 2.9 Soc. Sec. T. 1.8 O. Curr. T. 6.0 Investm. 1.6 Cap. T. (4) 0.5 O. G. Acc. 0.1 18.7
			O. Curr. T. 3.8 Cap. T. (4) 0.4 4.2	Soc. Sec. T.: Curr. 0.5		
Local Authorities					Cons. 9.3 Int. P. 0.4 Subs. 0.2 Soc. Sec. T. 0.2 O. Curr. T. 0.6 Investm. 2.1 Cap. T. (4) 0.1 O. G. Acc. 0.1 12.8	Cons. 9.3 Int. P. 0.4 Subs. 0.2 Soc. Sec. T. 0.5 O. Curr. T. 0.7 Investm. 2.1 Cap. T. (4) 0.1 O. G. Acc. 0.1 13.2
		O. Curr. T. 0.1		Soc. Sec. T.: Curr. 0.3		
Social Security Funds(3)					Cons. 0.4 Soc. Sec. T. 4.7 5.2	Cons. 0.4 Soc. Sec. T. 4.7 O. Curr. T. 0.1 5.3
			O. Curr. T. 0.1			
Private Sector	Tax. (Ind. Tax.) 20.0 S. S. C. 0.8 O. Rec. 1.2 21.9	Tax. (Ind. Tax.) 7.5 (0) O. Rec. 1.4 8.9		S. S. C. 4.6 O. Rec. 5.0		General Government (Consolidated) Cons. (Wages) 15.2 Int. P. (10.3) 0.6 Subs. 3.1 Soc. Sec. T. 6.2 O. Curr. T. 2.9 Investm. 3.6 Cap. T. (4) 0.1 O. G. Acc. 0.2 32.0
Total Revenues	Tax. 20.0 S. S. C. 0.8 O. Rec. 1.3 22.1	Tax. 7.5 O. Rec. 5.6 13.2		S. S. C. 4.6 O. Rec. 1.2 5.8		Tax. 27.5 S. S. C. 5.3 O. Rec. 2.9 Cons. F. C. 0.9 36.6
Memorandum Items: (Cons. F. C.) (Net Lending)	(0.3) (3.7)	(0.5) (0.4)		(0.5)		Net Lending 4.6

benefits, are mainly financed through the State budget.

The State enterprises (including State Railways and the post, telephone and telegraph enterprise) are included in the State budget, whereas the State-owned companies enjoy a rather similar treatment as privately owned enterprises as regards management and control. State lending and increases in shares in stock to state-owned companies are included in the Central government budget.

Funds outside the budget, among which the Finnish Investment Fund, amount to less than 3 per cent relative to the overall expenditure total of Central Government. The main part of their expenditure is financed from their own revenue (or borrowing).

Table 3. Breakdown of Functional Spending Categories (1986 Budget Proposal)

As percentage of total

General Administration	6
General order and security	3
Defence	5
Education Science and Arts	16
Social Security	17
Health	8
Housing and Environment	5
Labour	3
Agriculture and Forestry	9
Transport	8
Industry and other business	3
Other (mainly debt servicing costs)	17
Total	100

Source: Budget Proposal, 1985.

C. STRATEGIC AIMS AND GLOBAL NORMS

The main objective of economic policy is to maintain satisfactory economic growth and employment. That means, i.e. that the international competitiveness must be supported by budgetary policies aiming at reduction of inflation and consolidation of State finances. The government has set targets in its economic policy statements for gross tax revenues (including social security contributions) and has limited the extent of State borrowing (both relative to GDP). Recently, more explicit concerns have been expressed as to the growth of public expenditure.

In its economic policy statement to Parliament in May 1985, the government stated that the tax burden should not exceed the 1985 level at the end of the decade, and that the ratio of State debt to GDP should not increase. Furthermore, public expenditure (including lending and local authorities' and social security funds' expenditure) is permitted to grow only at an

average annual rate of slightly more than 2 per cent in volume until 1990; the real growth rate of central government expenditure has to be clearly lower than 2 per cent.

The following table indicates realisation of target variables.

Table 4. Fiscal Indicators
As percentage of GDP

	1980	1981	1982	1983	1984	1985	1986
Net State Borrowing Requirement	2.2	1.2	2.4	3.2	1.1	1.0	1 ¹
Gross Taxation	32.9	34.5	34.0	34.0	35.5	36.8 ¹	37.3 ¹
State Debt	9.3	10.1	12.3	13.9	14.4	14.0	14 ¹

1. Estimates.

Source: Ministry of Finance.

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year estimates (MYE) are prepared by Ministries at the beginning of the budget cycle for both expenditure and non-tax revenues of central government. They are used as a basis for preparing (informal) budget ceilings in the framework of guidelines by MF. Eventually they are presented with the submission of the annual budget to Parliament as an information item. This annex to the budget expresses MF views on expenditure development, but is not regarded as a commitment by MF nor the Cabinet.

The medium term expenditure plans of Ministries consist of a baseline estimate, based on current legislation and similar permanent decisions, and new measures (or "development plans"), which include investment and other projects and plans for new legislation. These development plans represent the policy proposals of spending Ministries, and are rather varied as regards their maturity and degree of integration into budget.

MYE cover the current year, the budget year and when they are prepared (as distinguished from updated) by the Ministries and agencies, five future years. However, plans are only brought up to date every second year based on the previous round and without extending the estimation period. So, the estimation period alternates between five and four years depending on the nature of the estimating round.

MY expenditure estimates comprise, among other central government expenditure, interest payments and unemployment benefits. There is no unallocated reserve. MYE are based on constant price and pay levels forecasted for the budget year. Estimates, sensitive to macro-economic developments, other than price and pay

developments, are adjusted to be consistent with medium term forecasting results.

MYE figures are built up from vote-level. The process is mainly bottom-up, although top-down elements are introduced in the form of MF comments and suggested ceilings.

MYE are published once a year, as an annex to the annual budget proposals showing a functional and economic breakdown. Every second year, MF publishes

a report in the Spring on medium-term prospects of the economy and government finances.

2. Calendar of main points of decisionmaking and activities

The fiscal year (FY(t)) is the calendar year (year t).

Months before start of FY(t)	Main events and activities
(Year t-2)	
13 (December)	Ministries submit medium term expenditure plans to MF.
(Year t-1)	
12-10 (January/March)	MF prepares its points of view on ministries' medium term plans and its ceilings and guidelines for the preparation of next year's budget
10 (March)	MF communicates to ministries its (informal) ceilings and guidelines
9 (end April)	Ministries send budget proposals to MF
9-8 (April-May)	Cabinet decides on macroeconomic and fiscal policy guidelines, submits its economic policy statement to Parliament
8-5 (May-August)	MF scrutinises annual budget proposals and at the end calls ministries into bilateral negotiations
5 (end August)	Cabinet finalises the budget (in its so called Budget Conference)
4 (mid-September)	Budget proposal is submitted to Parliament
4-0 (September-1st January)	Parliament debates and decides the budget
1-0 (December)	President confirms the budget
(Year t)	
0 (1st January)	Start of fiscal year (t)

3. The annual budget cycle

The budget cycle starts with the submission by Ministries of medium term plans to MF in December. MF then explains macro-economic targets by Ministries and prepares budgetary policy guidelines for the medium term and the following budget year.

In March these medium-term comments and informal expenditure ceilings and personnel limits for the next budget year are suggested by MF. The ministries may take them into account in preparing their budget proposals (deadline at the end of April).

Neither the medium term expenditure plans nor the comments of MF on them, nor the expenditure ceilings are formally discussed in detail in Cabinet, which however decides upon the overall macro-economic and fiscal policy guidelines which are usually stated in a report submitted to the legislature in the Spring. This statement on Economic Policy is discussed but not decided upon in the legislature.

Ministries' proposals, submitted to MF at the end of April, are scrutinised by MF, which calls the spending Ministries into bilateral negotiations at end-July/August. At the end of August, the Cabinet has its Budget

Conference, where the budget proposal is finalised and consequently submitted to the legislature in mid-September. Parliament debates the annual budget proposals and approves the budget at the end of the year.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

There are no separate formal procedures for programme analysis and review, but the medium term expenditure planning process includes some features with the same purpose. Ministries may start reviews of their activities, and the Ministry of Finance regularly scans the activities and expenditure of Government for reallocation opportunities, and requests spending Ministries to initiate studies and measures for that purpose. These measures are linked to the budget process either directly or through the medium-term planning process.

The Cabinet instructions for the preparation of new legislation include a requirement to provide for analyses of budgetary and economic consequences. This serves as background information which is submitted to Parliament as well.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

The implementation of the Budget is controlled using four interrelated instruments:

- The Cabinet issues General Instructions for the implementation of the budget, which establish the main rules concerning budget implementation and ex ante financial control.
- A detailed implementation budget ("the specification budget") is prepared by spending Ministries and, after the review of the Ministry of Finance approved as a guideline for the implementation.
- All economically and financially important expenditure decisions must be approved by the Finance Committee of the Cabinet (or, in less important matters, by the Ministry of Finance), even if necessary funds have been appropriated.
- The financing needs of major expenditure items are planned or forecast on a monthly basis for the whole year by the spending Ministries and reported to the Ministry of Finance, which monitors the monthly outcomes of all expenditure items on the basis of the accounting system, and takes or proposes appropriate measures on deviations to the specification budget.

Two or three supplementary budgets are passed annually, in which adjustments to revenue and expenditure (both decreases and increases) are recorded.

Parliament is informed about the implementation of the budget after the end of the fiscal year through the annual Accounts Report, the technical report incorporating the outcome of the budget, and the Report on the Management and State of Government Finances, which is more analytical in character.

2. Managerial discretion

The budget process has been kept rather traditional, with quite a limited access to discretionary transfers between the items decided in the budget. Balances can be carried forward up to three years after the end of the fiscal year, if Parliament has allowed for it in the Budget, which is customary for investments and similar appropriations with a multi-year character. Transferable appropriations amount to 16-17 per cent of the

budget total, and the balances actually transferred to 7 per cent.

G. CURRENT REFORMS

The major reforms presently under preparation are the reform of the budget law, which mainly codifies the present practices (including multi-year authorisation practices, which have gradually emerged as a supplement and a partial replacement of transferable appropriations), the administrative reform of State enterprises, strengthening the linkage between the medium-term planning process and Cabinet decisionmaking, and the reform of the technical system of accounting and disbursement.

H. FURTHER INFORMATION

All documents are in Finnish and Swedish only, unless stated otherwise.

Documents related to annual budget

The fiscal year is the calendar year (t).

1. Budget Proposal (*Hallituksen esitys eduskunnalle valtion tulo- ja menoarviokii*), budget policy and detailed proposals for annual appropriations and revenue items, September, year (t-1).
The Annexes: Economic Survey (English translation available), Report on Multi-year Projections of State Finances, and other occasional annexes.
2. Government Statement on Economic Policy to Parliament (*Valtioneuvoston talouspoliittinen selonteko eduskunnalle*), May.
3. Medium-Term Prospects 1985. The Finnish Economy and State Finances to 1990, (biannual, English translation available), May.
4. Report of the Finance Committee of Parliament on the budget proposal (*Valtiovarainvaliokunnan mietintö hallituksen esityksen johdosta valtion tulo- ja menoarvioksi*), December, year (t-1).
5. The Budget accepted by Parliament (*Eduskunnan vastaus hallituksen esitykseen valtion tulo- ja menoarvioksi*), December, year (t-1).
6. The specification budget of the State (*Valtion erityismenoarvio*), February/March, year (t).
7. General Instructions for the Implementation of the State Budget (*Valtion tulo- ja menoarvion yleiset soveltamismääräykset*), concerning the rules of expenditure management, annual document, January, year (t).

8. The Annual Accounts of the State (*Valtion tilinpäätös*), April/May, year (t+1).
 9. Report on the Management and State of Government Finances (*Kertomus valtionvarain hoidosta ja tilasta*), containing information about revenue, expenditure, activities, State as employer, financial support to other sectors, Government debt, annexes on cash receipts and outlays, personnel, salaries and pensions, lending, debt, guarantees etc., Autumn, year (t+1).
 10. The State Auditors' Report (*Valtiontilintarkastajain kertomus*), year (t+1/t+2).
- Other documents*
- Articles in the Bank of Finland *Monthly Bulletin*.
- Point of contact*
- Budget Department
Ministry of Finance
P.O. Box 286
SF-00171 Helsinki

FRANCE

Any changes which may have taken place in France since 1st June 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

France is a unitary state. There are four levels of government: state or central level, the regions, departments and municipalities, the latter three levels belonging to local authorities. Regions each have their own government and (one chamber) parliament. Central Government functions are organised around 20 to 25 ministries and several agencies. Ministries have in general one Minister and often one or several Secretaries of State. A special cabinet staff (le Cabinet du Ministre), which does not have line management functions, is also part of the political level, to advise the (deputy) Minister on all matters of his concern. The Directors of each ministry are non-political appointments, as are the rest of the departmental personnel.

Parliament has two Houses, the National Assembly (Assemblée Nationale) and the Senate (Sénat). Five major political parties are represented in the Assemblée Nationale, two of which support the government. There is a coalition agreement on broad principles of economic and fiscal policy, for example, privatisation, total amount of budget cutbacks and reduction of tax revenues.

All (24) ministers are members of Cabinet; some ministers do not have their own budget. Ministers cannot be a member of Parliament at the same time. Direct elections for the Assemblée Nationale, to be held regularly every five years, will be in 1991 at the latest. Presidential elections will take place in 1988. The President serves a seven-year term.

2. Main budgetary organs

The Minister of Economy and Finance and Privatisation (MEFP) plays a central role in all economic and fiscal policy matters. The (deputy) Minister of the Budget (MB) has primary responsibility for the revenue and expenditure side of the budget. Since mid-August

1986, two other deputy Ministers take care of Foreign Trade, and Commerce and Artisanat.

MEFP is composed of several directorates. The forecasting directorate is engaged in macro-economic projections. Taxation is the domain of tax legislation service and the tax directorate. The directorate of public accounts is involved in the implementation of the budget as far as it concerns the flow of cash payments and the audited year-end financial statement. The Treasury directorate is, among other things, responsible for public enterprises and the debt-servicing programme. The budget directorate, with about 300 staff, is divided into six sub-directorates. Four of them monitor and control finances of sectoral areas. The status of civil servants is controlled by another sub-directorate whereas the coordination and compilation of the budget, both in the preparation and implementation stage, and general expenditure policies are taken care of by a separate sub-directorate.

3. Role of the President, Prime Minister and Cabinet

The President decides certain "grandes orientations" and has a specific concern with defence and foreign affairs policies.

The Prime Minister determines the broad lines of budgetary policy, on the basis of proposals put forward by MEFP. These broad lines are incorporated in a framework letter, which is signed by him and submitted to his colleagues. He is also in charge of the "ceilings letter" (see Section D3). He can arbitrate differences of opinion between ministers.

Cabinet is involved in the last stage of budget preparation, i.e. approval of the budget bill, before it is submitted to Parliament, as opposed to the earlier stages of budget preparation, in which Cabinet is only informed.

4. Role of Parliament

Budget documents submitted by the Government are examined by a Finance Committee, in both Houses, before being examined by sectoral committees.

Unlike other bills, the Initial Finance Bill has to be first discussed and decided in the Assemblée Nationale and subsequently in the Senate. In case the two Houses do not agree, a small, equally-mixed committee has to find a compromise after which the dispute is referred to the two Houses; subsequently both in full session. If no agreement is reached, the Assemblée Nationale makes the final decision.

The Parliamentary procedure to approve the budget is as follows. Parliament has to vote first on tax legislation and tax revenues. Members of Parliament can change

tax laws, so long as tax revenues are not being reduced. Subsequently, Parliament decides the so-called equilibrium of the Initial Financial Bill, (amongst which the budget deficit) as a result of which total expenditure is determined.

Decisionmaking on expenditure starts with taking a vote on the total of expenditure under current legislation ("services votés"). Subsequently, new authorisations are voted. These new measures can also include cut-backs against the level of expenditure under current legislation. These votes are organised by "titre"¹ and by

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

From	To	Central Government (3)	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government (3)					Cons. 11.5 Int.P. 1.9 Subs. 2.1 Soc.Sec.T. 1.7 O.Curr.T. 3.0 Investm. 0.6 Cap.T. 0.5 O.G.Acc. 0.2	Cons. 11.5 Int.P. 1.9 Subs. 2.1 Soc.Sec.T. (5) 4.9 O.Curr.T. (5) 5.4 T.T.R. (4) -2.1 Investm. 0.6 Cap.T. 1.0 O.G.Acc. 0.2
	T.T.R. (4)	-2.1	O.Curr.T. 0.5 T.T.R. (4) 1.9 Cap.T. 0.5 2.8	Soc.Sec.T.: Curr. T.T.R. (4) 0.3 3.2	21.5	25.6
Local Authorities					Cons. 3.9 Int.P. 0.8 Subs. 0.2 Soc.Sec.T. 0.8 O.Curr.T. 0.6 Investm. 2.2 Cap.T. 0.1	Cons. 3.9 Int.P. 0.8 Subs. 0.2 Soc.Sec.T. 0.8 O.Curr.T. 0.7 Investm. 2.2 Cap.T. 0.2
	O.Curr.T.	0.1			8.6	8.7
	Cap.T.	0.1 0.2				
Social Security Funds					Cons. 1.1 Soc.Sec.T. 21.6 O.Curr.T. 0.2 Investm. 0.1	Cons. 1.1 Soc.Sec.T. 21.6 O.Curr.T. 0.3 Investm. 0.1
	O.Curr.T.	0.1			23.0	23.1
Private Sector						
	Tax. (Ind.Tax.) (12.6)	20.3	Tax. (Ind.Tax.) (2.1)	Tax. (Ind.Tax.) (0.3)	General Government (Consolidated)	
	S.S.C. 0.3			S.S.C. 19.4	Cons. (Wages) (11.5)	Tax. 24.4
	O.Rec. 3.4		O.Rec. 0.7	O.Rec. 0.7	Int.P. 2.8	S.S.C. 19.7
	24.0		4.5	20.5	Subs. 2.4	O.Rec. 4.8
Total Revenues					Soc.Sec.T. 24.2	Cons.F.C. 1.3
	Tax. 20.3		Tax. 3.8	Tax. 0.4	O.Curr.T. 3.7	50.3
	T.T.R. (4) -2.1		T.T.R. (4) 1.9	T.T.R. (4) 0.3	Investm. 2.8	
	S.S.C. 0.3			S.S.C. 19.4	Cap.T. 0.6	Net Lending -2.8
	O.Rec. 3.7		O.Rec. 1.7	O.Rec. 3.7	O.G.Acc. 0.2	
	22.2		7.5	23.7	53.1	
Memorandum Items:						
(Cons.F.C.)		(0.4)	(0.9)	(0.6)		
(Net Lending)		(-3.1)	(-0.3)			

1. For explanation and comments, see the introduction to Part II and the remainder of this section.

2. Items do not necessarily add to totals due to rounding off.

3. Including the State, public corporations and those private institutions with government providing more than 50% of revenues (e.g. private schools).

4. Transfers of tax receipts, from Central Government to Local Authorities and Social Security Funds.

5. Including transfers of tax receipts

Source: OECD, Annual National Accounts.

Ministry. Parliament can only reduce expenditure; it cannot add to expenditure nor can it reallocate resources. Finally, Parliament controls expenditure at the level of about 1500 chapters ("chapitre").

Parliament has to appropriate all expenditure annually, including expenditure authorised under separate legislation. However, appropriations for mandatory expenditure programmes are different in character: instead of a ceiling, they represent only an estimate which therefore can be exceeded without prior Parliamentary approval.

The Initial Finance Bill is passed to Parliament before the beginning of the new fiscal year. Through a specific procedure the Initial Finance Bill is automatically submitted to the Senate in case the Assemblée Nationale exceeds time limits and vice versa.

After approval by Parliament, members of Parliament can submit the Finance Act to the Constitutional Council. The Council can partially, or totally, annul the law.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Local authorities are made up of regions, departments and municipalities. Since the decentralisation programme of 1983 the regional level has been strengthened vis-à-vis departments and municipalities.

Table 2
General Government Figures
In % GDP, 1974 (1) (2)

Notes: see table 1.

From	To	Central Government (3)	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government (3)					Cons. 10.0 Int.P. 0.5 Subs. 1.6 Soc. Sec.T. 1.3 O.Curr.T. 2.6 Investm. 0.8 Cap.T. 0.6 O.G.Acc. 17.6	Cons. 10.0 Int.P. 0.5 Subs. 1.6 Soc. Sec.T. (5) 5.7 O.Curr.T. (5) 5.7 T.T.R. (4) -2.3 Investm. 0.8 Cap.T. 1.0 O.G.Acc. 20.3
		T.T.R. (4) -2.3	O.Curr.T. 0.8 T.T.R. (4) 2.3 Cap.T. 0.4 3.5	Soc. Sec.T.: Curr. T.T.R. (4) 1.6 0 1.6		
Local Authorities					Cons. 2.7 Int.P. 0.5 Subs. 0.1 Soc. Sec.T. 0.9 O.Curr.T. 0.3 Investm. 2.4 Cap.T. 0.1 7.1	Cons. 2.7 Int.P. 0.5 Subs. 0.1 Soc. Sec.T. 0.9 O.Curr.T. 0.4 Investm. 2.4 Cap.T. 0.2 7.2
		O.Curr.T. 0.1 Cap.T. 0.1 0.2				
Social Security Funds					Cons. 0.8 Soc. Sec.T. 14.2 O.Curr.T. 0.2 Investm. 0.1 15.4	Cons. 0.8 Soc. Sec.T. 14.2 O.Curr.T. 0.3 Investm. 0.1 15.4
Private Sector		Tax. 20.1 (Ind. Tax.) (13.0) S.S.C. 0.2 O.Rec. 2.9 23.1	Tax. 1.6 (Ind. Tax.) (1.2) O.Rec. 0.7 2.3	Tax. 0.1 (Ind. Tax.) (0.1) S.S.C. 13.9 O.Rec. 0.4 14.4	<u>General Government</u> (Consolidated)	
					Cons. (Mages) 13.6 (9.6) Int.P. 0.9 Subs. 1.8 Soc. Sec.T. 16.4 O.Curr.T. 3.1 Investm. 3.3 Cap.T. 0.7 O.G.Acc. 0.2 40.0	Tax. 21.8 S.S.C. 14.0 O.Rec. 4.0 Cons.F.C. 0.9 40.7 Net Lending 0.6
Total Revenues		Tax. 20.1 T.T.R. (4) -2.3 S.S.C. 0.2 O.Rec. 3.0 20.9	Tax. 1.6 T.T.R. (4) 2.3 O.Rec. 1.9 5.8	Tax. 0.1 T.T.R. (4) 0 S.S.C. 13.9 O.Rec. 2.0 16.0		
Memorandum Items: (Cons.F.C.) (Net Lending)		(0.3) (0.9)	(0.5) (-0.9)	(0.6)		

Local taxes include real estate tax, land taxes and a professional tax imposed on enterprises. Municipalities are mainly involved in the areas of primary education and culture, and the registration service. Social welfare, transportation for pupils, and secondary education (12-16 years) are taken care of by departments. Finally, regions are engaged in, for example education for the 16-18 year olds and in vocational education. Local authorities have access to capital markets, but only the bigger ones use this possibility. Their borrowing requirement is usually small.

Social security is mainly organised in social security funds. Three groups of funds (or schemes) can be distinguished: those related to old-age retirement pensions, the health insurance funds, and the family policy funds. Social partners control day to day management of funds. The State determines the rate of benefits and social security contributions. The State participates in the disability scheme, whereas the departmental level of government is mainly involved in paying the social assistance grants.

Government influence on certain private sector enterprises has been traditionally stronger than in most OECD countries. The national accounts only identify seven "major national enterprises" in energy and transport, together with Post and Telecommunications, which is statutorily a central government service with a separate annex budget.

The structure of central government expenditure by function is as follows:

Table 3. Functional Classification
of Government Expenditure (1986)
Percentage of total

Public authorities and general administration	12.2
Education and Culture	23.4
Social Sector, health and employment	18.9
Agriculture and Rural Space	2.4
Housing and urbanisation	4.6
Transport and communications	4.1
Industries and services	4.9
Foreign affairs	2.5
Defence	15.9
Not classified	11.1
Total	100.0

Source: Blue Paper, no. 271 (see Section II).

C. STRATEGIC AIMS AND GLOBAL NORMS

Following a brief period of expansion in the early 1980s, the Government moved to a more restrictive posture. Recent budgets have been guided by two fiscal restraints rolled forward from year to year: that the

central government deficit is not to exceed 3 per cent of GDP (being the average of deficits in major OECD countries); and that the tax and social security contributions burden, the so-called *prélèvements obligatoires*, is to be lowered by 1 per cent by 1985.

The present government has reformulated the norm for the deficit. Central government deficit should not exceed the amount of interest payments on government debt. The deficit includes loans made by the government, except the loans by steel and economic funds and (additional) borrowings of the seven major national enterprises (see Section B). As regards the *prélèvements obligatoires*, the present government aims to reduce it, against the 1986 level.

The following table indicates outturns for 1980-1985 and an estimate for 1986.

Table 4. Fiscal Indicators, 1980-1986
As percentage of GDP

	1980	1981	1982	1983	1984	1985	1986 (estimate)
Central Government Deficit	1.09	2.6	2.77	3.29	3.42	3.34	3
Tax and Social Security Burden	42.5	42.8	43.8	44.6	45.5	45.1	45.1
Interest Payments	1.0	1.5	1.5	1.9	2.1	2.1	1.9

Source: *Lois de règlement, loi de Finances 1986* (see section II).

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

There is no comprehensive system of multi-annual budget projections.

2. Calendar of main points of decision-making and activities

The fiscal year (FY(t)) is the calendar year (year t). (See table on page 96.)

3. The annual budget cycle

Four stages can be distinguished in the annual budget cycle.

In the first stage (January-March) an outline of the new budget framework is developed by the Budget Directorate. Simultaneously, the new budget is projected if no policy changes were made, and proposals are

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Months before start of FY (t)	Main events and activities
(Year t-1)	
12-11 (January-February)	Budget Directorate prepares budget outlook based on reviewed economic assumptions.
12-10 (January-March)	MEFP, Deputy Minister of the Budget and Prime Minister discuss and decide broad budgetary policy orientations; framework letter is sent to all ministers containing these orientations and instructions for ministerial budget preparations.
9-7 (April-June)	Budget Directorate discussions with spending ministries. Examination of room for financing new measures. Prime Minister submits letter containing expenditure ceilings for all ministerial areas.
6 (July)	Budget Directorate meeting with spending ministries to discuss the implementation of ceilings and breakdowns of expenditure.
5-4 (August-September)	Final budget preparations and tax policy decisions.
3 (First Tuesday in October)	Submission of budget documents to Assemblée Nationale.
(Year t)	
0 (1st January)	Start of fiscal year (t)

put forward to adapt this budget projection so as to propose a framework to the government. On the basis of this information, MEFP and the Prime Minister discuss the new budget proposals and around the end of March decide the broad financial orientations for the following year e.g. (as in budget preparation 1987) reduction in the number of civil servants by 1.5 per cent and 10 per cent reduction in energy costs. These orientations are communicated by the Prime Minister to all Ministers in his framework letter, which also provides the norms and guidelines for the preparation of the new budget.

The next stage (April-June) covers the first round of meetings with the spending ministries. The Budget Directorate and the ministries try to agree on the costs of current programmes and operation of government agencies, and they discuss new policy measures and the costs and funding thereof. If they cannot agree, the Ministers (and their "Cabinets de Ministre") and the Prime Minister arbitrate.

After new revenue estimates have become available, the new budget outlook is considered in terms of the room available for financing new measures. At this stage, budget cutbacks are proposed.

The results of the negotiations in this stage are examined at Ministerial level and, if necessary, by the Prime Minister. Expenditure ceilings for big expenditure categories are communicated to the ministers in a "ceilings" letter, signed by the Prime Minister.

In July, a new round of discussions takes place between the Budget Directorate and the spending ministers to discuss whether all instructions and the breakdowns of expenditure ceilings have been implemented correctly. Also, budget receipts are estimated anew.

During the last stage (August-September), final preparations to the budget are made, among which an update of economic assumptions, decision on tax measures and approval by Cabinet. The Initial Finance Act

and related documents are submitted to the Assemblée Nationale the first Tuesday in October at the latest.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

There is no central, systematic procedure of review of governmental expenditure. However, the "Cour des Comptes", in addition to checking the legitimacy of public expenditure, is allowed to comment on financial procedures and to suggest improvements.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

Once the budget has been approved, it can in principle only be changed by Parliament. However, through an urgent procedure, funds can be released by decree ("décrets d'avances"), in principle if other expenditure is cut back by the same amount. The next rectificative Finance Bill should seek parliamentary authorisation.

Conjunctural funds, voted and blocked in the initial Finance Act, can be released by a Government decision. Likewise, the Government can decide not to spend, or keep in reserve, certain expenditure in order to contain the expenditure total, for which no prior Parliamentary approval is needed.

Parliament is informed about the implementation of the budget by a so called Rectification Act, which Parliament has to approve. In principle, spending

ministers are asked to fund additional or new expenditure by retrenchments of other expenditure.

Parliament is informed about the implementation of the budget at least once a year, in November or December.

2. Managerial discretion

Transfers of funds between chapters are in principle not possible unless with Parliamentary approval. There are however two exceptions:

- If not exceeding 10 per cent of the funds of the chapters concerned, monies can be transferred within the same title and within the same Ministry.
- Transfers between ministries are allowed for if the character of the expenditure is not changed.

Funds cannot be carried forward, unless under special conditions. Investment expenditure, if not exhausted at the end of the year, will not lapse but will be carried forward. Unspent balances in certain chapters, identified in the Finance Act, can be carried forward fully. Expenditures included in all other chapters can be carried forward up to 10 per cent of the appropriated funds.

G. CURRENT REFORMS

Preparing the 1987 budget, departments have to justify all capital projects and related expenditure vis-à-vis MEFP, rather than the marginal changes against previous years' levels. Depending on experiences, this measure will be made permanent.

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year (t) is the calendar year (t).

1. Initial Finance Law (*Projet de Loi de Finances*), contains financial equilibrium (tax proposals and budget deficit) and appropriation of expenditures, September/October, year (t-1).
2. Economic and Financial Report (*Rapport économique et financier*), describes economic results and forecast for the next year ahead, September/October year (t-1).
3. Summary of Ways and Means (*Fascicule "Voies et moyens"*), detailed estimates of revenues, September/October year (t-1).
4. Annexes (*Annexes*), describing resource allocation to Ministries, September/October year (t-1).
5. Definitive Allocation to Ministries, (*Budget Voté*), published after approval of Finance Law, end January, year (t).
6. Social Effort of the Nation (*L'Effort social de la nation*), annual publication, financial results of total social security, end October/November, year (t+1).
7. Supplementary Budget Bills (*Lois de finances rectificatives*), at least one per year, November/December, year (t).

Other documents

8. Reform of Local Authority Financing, (*Réforme des Finances des Collectivités Locales*), May 1982.
9. Blue Papers (*Les notes bleues*), weekly publication of Ministry of Economy and Finance and Privatisation:
 - No. 247, 30 September-6 October 1985, about the Initial Finance Law 1986.
 - No. 271, 17-23 March 1986, about Rectificative Finance Laws, budget 1986.
 - No. 299, 29 September-5 October 1986, about the Initial Finance Law, 1987.

Point of contact

Ministère de l'Economie, des Finances et de la Privatisation
Première sous-direction du Budget
93, rue de Rivoli
75001 Paris

NOTE

1. The character of a "titre" or title includes both a legal and an economic aspect. There are 7 titles. Current expenditure is divided into 4 titles:
 1. Public Debt;
 2. Transfers to the two Houses of Parliament and to the President;
 3. Final consumption expenditure;
 4. Subsidies.
 Capital expenditure is divided into three "titles":
 5. Government investments;
 6. Capital transfers;
 7. War damage compensation.

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Any changes which may have taken place in Germany since
1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

The Federal Republic of Germany is a federal state and three levels of administration may be distinguished: the Federation, the eleven Länder, among which Land Berlin has special status, and some 8500 local authorities (Gemeinden/Kreise).

Each Land has its own constitution, Parliament, government and separate administration. Each level of administration is legally autonomous and in principle independent in fulfilling its constitutional tasks.

Federal Government functions as defined by the Basic Law are distributed to ministries and several Federal agencies. Ministries are headed by a Minister, one or two parliamentary secretaries of state (being members of Parliament) and one or two (administrative) secretaries of state and are divided into several directorates.

Federal Government is headed by the Federal Chancellor who is elected by the Bundestag and who is formally the only member of government responsible to it. He chooses his cabinet by nominating Federal ministers for appointment (or dismissal) by the Federal President.

Parliament consists of two chambers - the Bundestag and the Bundesrat. The Bundestag (Federal Parliament) is the actual legislative body; the Bundesrat (Federal Council) is the federal institution through which the Länder participate in the legislation of the Federation.

The members of Parliament (about 520) are elected for 4 years; the next election being in early 1987. Since 1983, three of five parties represented in parliament form a (majority) coalition supporting the coalition government on the basis of a coalition agreement.

2. Main budgetary organs

Within the Federal Government, responsibility for budget issues rests with the Federal Minister of Finance (MF). MF deals with the expenditure and revenue side

of the budget in general. MF collaborates with the Federal Minister of Economics in overall economic projections which are the basis for tax revenue estimates, which are made by a working group of experts from the Economic and Finance Ministries, from the Länder and the local authorities as well as from scientific economic institutes and the Bundesbank. The chair is held by MF.

MF also chairs the Financial Planning Council which makes recommendations for the coordination of the budgets and financial plans of the Federal Government, the Länder and the local authorities. This Council consists of Ministers of Finance of both Federation and Länder, the Federal Minister of Economics and representatives of municipalities (See Section D for more information); and also the Bundesbank participates.

Another important council, made up of representatives from Federal and Länder authorities and municipalities, is the Economic Policy Council ("Konjunktur-rat") chaired by the Federal Minister of Economics, with a special Sub Committee on Public Borrowing, headed by MF. The Economic Policy Council, under the law to Promote Economic Stability and Growth, considers all measures required to achieve the aims of economic stability.

Within the MF budgetary activities are co-ordinated by the Budget Directorate (headed by the Director of the Budget) which has prime responsibility for the planning, (intragovernmental) co-ordination and implementation on the expenditure and revenue side of the budget. Taxation matters are with the Taxation and the Financial Policy Directorate. The Budget Directorate employs nearly 250 (all grades and supporting staff). It comprises 4 sub-directorates with a total of 23 divisions, 16 of which being mirror divisions to spending ministries, the rest having general tasks. The "general division" has prime responsibility for the drafting of the annual budget and the financial plan and all necessary co-ordination.

3. Role of Federal Chancellor and Cabinet

The Federal Chancellor lays down the broad lines of government policy. He is the head of the Federal government and as such responsible to Parliament.

The Cabinet approves the government drafts of the budget and the financial plan as prepared by MF. The Federal Chancellor submits the government draft budget and the Financial plan to Parliament – the draft budget to be approved, the financial plan for information and debate only.

The Minister of Finance, member of all important Cabinet Committees, is in a rather powerful position regarding budgetary matters. On issues of financial significance, MF can lodge an objection against decisions taken by the Cabinet. This objection can be rejected only if the Federal Chancellor and the majority of all Federal ministers vote against it. This is an unprecedented event.

4. The Role of Parliament

The budget bill is – like all other bills – approved by Parliament. To shorten the parliamentary approval time, appropriation bills and related budget documents are submitted to both Chambers of Parliament at the same time. This enables the Budget to be finalised, approved and published shortly before the start of the new financial year (i.e. the calendar year) to which it refers.

Once the budget has been presented to Parliament it is "out of the Government's hands" in the sense that the final decision with respect to the budget is made by the legislature, the final approval being from the Bundestag. First the role of the Bundesrat will be examined.

The *Bundesrat* may comment on the draft budget and is also able to propose amendments to it. Its proposals are then forwarded to the Federal Government which passes them on to the Bundestag together with its own (counter) Statement.

Once the Bundestag has decided to adopt the bill, it goes to the Bundesrat for the second time.

If the Bundesrat does not agree with the bill as adopted by the Bundestag (i.e. because it encroaches upon Länder interests) the Bundesrat may appeal to the Mediation Committee, which is made up of an equal number of members of the Bundestag and the Bundesrat and whose task it is to find a compromise between the resolutions of the two legislative bodies. If the Mediation Committee proposes an amendment to the bill, it must be put to a new vote in the Bundestag. This has rarely occurred. After that, the Bundesrat is still entitled to enter an objection, but this objection can then be overruled by the Bundestag.

The *Bundestag* may change, add something new or even drop the bill. It can appropriate more than the Government proposes and expenditure can be frozen or even deleted completely, with the exception of mandatory expenditures that cannot be changed unless underlying "material" laws are amended. However, the Government would use its majority in the Bundestag to protect its budget.

Preparatory work for the resolutions to be taken by Parliament is carried out by the Budget Committee of

the Bundestag. The budget, registered on a cash-basis, comprises some 7,000 expenditure subheads, all of which are appropriated annually including borrowing authority and all regulations and explanations within the budget plan. Some 15 meetings are required to discuss them in detail on the basis of reports of committee rapporteurs for each of the single ministerial expenditure areas.

New programmes can be proposed and approved, although laws increasing expenditures or involving (or likely to cause) new expenditures (both compared to Government proposals) will require the consent of the Government. The Government may require the Bundestag to postpone its vote on such bills. In this case the Federal Government shall state its position to the Bundestag within six weeks. If the Bundestag after 6 weeks (at maximum) adopts such a bill the Federal Government within four weeks may require it to vote on that bill again. This happens very seldom, since government would use the (coalition) majority to avoid votes of that kind against government opinion. In fact, most of the bills are discussed and prepared in committees of (coalition) parties, in which both government and members of Parliament participate.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Tables 1 and 2 above show that General Government expenditure growth has been moderate (3½ per cent) as compared with other OECD countries. The same holds true for the budget balance: general government and central government deficit both increased by less than 1 per cent.

All levels of government are assigned tasks which are quite well defined in the constitution. The Federation, the Länder and local authorities meet separately the expenditure resulting from the discharge of their respective tasks by revenue from own taxes as well as by distributing the revenues of certain joint taxes to legally established formulas. In general, the principle of equalisation of revenues has been adopted, thus spreading the balances between financially strong and weak governments of various levels.

The local authorities receive funds required for performing their local tasks (including local social services and hospitals) from local taxes (mainly on real estate), from their share of income tax revenue and from Land grants and transfers.

The Länder are responsible for, among other things, cultural and educational affairs, the administration of justice, the police, and the health service. Another task of the Länder is the implementation of so called joint activities, a rather new form of co-operation between Länder and Federation, regarding among other things

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regional economic structural policy. Most of the Federal laws (and tasks) are executed by the Länder.

These wide areas of Länder's responsibility call for correspondingly large amounts of money. The Länder receive half the revenue from income tax (less the municipalities' share) and from corporation tax and a

portion (35 per cent) of value added tax. In addition, the Länder are entitled to collect some taxes of minor importance; they have to pass on a certain amount of this revenue to the municipalities.

Federal Government's responsibilities include among other things defence and external affairs matters, social

Table 1
General Government, Figures
In % GDP, 1984 (1)(2)

From	To	Central Government	State Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government						!Cons. 3.9 !Int.P. 1.6 !Subs. 1.4 !Soc.Sec.T. 1.9 !O.Curr.T. 2.1 !Investm. 0.3 !Cap.T. 1.0 12.2	!Cons. 3.9 !Int.P. 1.6 !Subs. 1.4 !Soc.Sec.T. 4.2 !O.Curr.T. 3.4 !Investm. 0.3 !Cap.T. 1.4 16.3
		0.Curr.T. 1.2 Cap.T. 0.5 1.7	10.Curr.T. 0.1		!Soc.Sec.T. 2.3 !O.Curr. 2.3		
State Government						!Cons. 6.3 !Int.P. 1.0 !Subs. 0.5 !Soc.Sec.T. 0.4 !O.Curr.T. 1.4 !Investm. 0.5 !Cap.T. 0.7 10.9	!Cons. 6.3 !Int.P. 1.0 !Subs. 0.5 !Soc.Sec.T. 0.4 !O.Curr.T. 3.2 !Investm. 0.5 !Cap.T. 1.4 13.4
			10.Curr.T. 1.7 Cap.T. 0.7 2.4				
Local Authorities						!Cons. 3.5 !Int.P. 0.4 !Subs. 0.1 !Soc.Sec.T. 0.4 !O.Curr.T. 0.4 !Investm. 1.4 !Cap.T. 0.2 !O.G.Acc. 0.1 6.5	!Cons. 3.5 !Int.P. 0.4 !Subs. 0.1 !Soc.Sec.T. 0.4 !O.Curr.T. 0.6 !Investm. 1.4 !Cap.T. 0.2 !O.G.Acc. 0.1 6.8
			0.Curr.T. 0.1 Cap.T. 0.1 0.2				
Social Security Funds						!Cons. 6.4 !Soc.Sec.T. 12.1 !O.Curr.T. 0.4 !Investm. 0.1 !Cap.T. 0.1 19.1	!Cons. 6.4 !Soc.Sec.T. 12.1 !O.Curr.T. 0.4 !Investm. 0.1 !Cap.T. 0.1 19.1
Private Sector	!Tax. 13.0 !(Ind.Tax.) (7.9) !O.Rec. 1.8 14.8	!Tax. 9.0 !(Ind.Tax.) (3.3) !O.Rec. 1.4 10.4	!Tax. 3.1 !(Ind.Tax.) (1.8) !O.Rec. 0.9 4.0	!S.S.C. 16.3 !O.Rec. 0.4 16.7			General Government (consolidated) !Cons. 20.1 !(Wages) (10.7) !Int.P. 3.0 !Subs. 2.1 !Soc.Sec.T. 14.8 !O.Curr.T. 4.3 !Investm. 2.3 !Cap.T. 2.0 !O.G.Acc. 0.1 48.6
Total Revenues	!Tax. 13.0 !O.Rec. 1.9 14.9	!Tax. 9.0 !O.Rec. 3.3 12.3	!Tax. 3.1 !O.Rec. 3.4 6.6	!S.S.C. 16.3 !O.Rec. 2.8 19.0			!Tax. 25.2 !S.S.C. 16.3 !O.Rec. 4.5 !Cons.F.C. 0.7 46.6 Net Lending -1.9
Memorandum Items:							
(Cons.F.C.)	(0)	(0.2)	(0.4)				
(Net Lending)	(-1.3)	(-0.8)	(0.2)	(0)			

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.

Source: OECD, Annual National Accounts.

Table 2
General Government Figures
In % GDP, 1974 (1)(2)

Notes: see table 1.

From	To	Central Government	State Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government						Cons. 4.1 Int.P. 0.5 Subs. 1.4 Soc.Sec.T. 1.3 Curr. 2.1 Investm. 0.5 Cap.T. 0.8 G.Acc. 0.1	Cons. 4.1 Int.P. 0.5 Subs. 1.4 Soc.Sec.T. 3.4 Curr. 3.1 Investm. 0.5 Cap.T. 1.7 G.Acc. 0.1 14.7
State Government						Cons. 6.2 Int.P. 0.3 Subs. 0.5 Soc.Sec.T. 0.5 Curr. 1.4 Investm. 0.8 Cap.T. 1.1 10.7	Cons. 6.2 Int.P. 0.3 Subs. 0.5 Soc.Sec.T. 0.5 Curr. 3.2 Investm. 0.8 Cap.T. 2.1 13.6
Local Authorities						Cons. 3.4 Int.P. 0.4 Subs. 0.1 Soc.Sec.T. 0.4 Curr. 0.4 Investm. 2.5 Cap.T. 0.3 G.Acc. 0.1 7.6	Cons. 3.4 Int.P. 0.4 Subs. 0.1 Soc.Sec.T. 0.4 Curr. 0.6 Investm. 2.5 Cap.T. 0.4 G.Acc. 0.1 7.8
Social Security Funds						Cons. 5.6 Soc.Sec.T. 10.6 Curr. 0.2 Investm. 0.1 16.5	Cons. 5.6 Soc.Sec.T. 10.6 Curr. 0.2 Investm. 0.1 16.5
Private Sector		Tax. 13.2 (Ind.Tax.) (7.6) O.Rec. 0.8 14.0	Tax. 9.4 (Ind.Tax.) (3.3) O.Rec. 1.1 10.5	Tax. 3.2 (Ind.Tax.) (1.8) O.Rec. 0.9 4.1	S.S.C. 14.0 O.Rec. 0.8 14.8	General Government (Consolidated)	
Total Revenues		Tax. 13.2 O.Rec. 1.0 14.2	Tax. 9.4 O.Rec. 3.4 12.8	Tax. 3.2 O.Rec. 3.8 7.0	S.S.C. 14.0 O.Rec. 2.9 16.9	Cons. 19.3 (Wages) (10.9) Int.P. 1.1 Subs. 1.9 Soc.Sec.T. 12.7 Curr. 3.7 Investm. 3.8 Cap.T. 2.2 G.Acc. 0.3 45.1	Tax. 25.7 S.S.C. 14.0 O.Rec. 3.5 Cons.F.C. 0.5 43.8
Memorandum Items: (Cons.F.C.) (Net Lending)		(0) (-0.5)	(0.2) (-0.7)	(0.3) (-0.6)	(0.4)		Net Lending -1.3

policy, development aid, the construction of federal roads and motorways etc. In order to finance its activities, the Federal Government receives part of the revenue from income tax, corporate tax and value added tax, and is entitled to the revenues of some other taxes.

The social insurance funds, as a rule, prepare their own budget. Their expenditure is financed by social security contributions of insured employees and

employers, and in part by transfers from the Federal budget. On-budget social security covers war victims' pensions and related benefits and minimum relief for unemployed persons. Federal Government can influence entitlement terms and rates of social benefits via a bill presented to Parliament for approval.

Federal special funds operating as independent public-law enterprises are the Federal Railways and Federal Posts and Telecommunications. Federal Railways

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receive from the Federal budget current and capital grants. Federal Posts and Telecommunications pay an annual contribution to the Federal budget.

Table 3. Functional Classification
of Federal Government Expenditure (1986)
As percentage of total

Social Sector	32.6
Defence	19.2
Transport	9.6
Education, science and technology	5.3
Commerce, agriculture, energy	4.1
Federal aid for Berlin	4.7
Interest on public debt	11.8
Other	12.7
Total	100.0

Source: *Finanz Bericht*, 1986 (see Section II).

C. STRATEGIC AIMS AND GLOBAL NORMS

The Federal Government's budgetary and fiscal policies are operated under the precondition to consolidate public finances, i.e. to put them on a sound basis. This consolidation strategy is at the basis of a multi-year Financial Plan (see section D), which is decided and published annually. One element of this Financial Plan is a structured compilation of expenditure for the federal investment programmes, containing the volume and structure of the Federal Government's investment projects for the particular financial planning period.

Policy is aimed now at a further reduction of the budget deficit by restricting nominal growth of federal budget expenditure.

For the 1985-1989 Financial Plan, the aims are:

- Limiting total Federal nominal expenditure growth to a maximum of 3 per cent per annum (i.e. roughly half of the nominal increase of Gross National Product);
- Further reducing the Federal net borrowing requirement¹.

The following table indicates the realisation of targets.

Table 4. Fiscal Indicators, 1980-1986

	1980	1981	1982	1983	1984	1985	1986 (est.)
Net Borrowing Requirement (in billion DM)	27.1	37.4	37.2	31.5	28.3	22.4	23.7
Total Federal nominal expenditure growth (%)	6.1	8.0	5.0	0.9	2.0	2.1	2.5

Source: Ministry of Finance.

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year estimates (MYE) for planning and control purposes are registered for expenditure, revenues and resulting budget deficits of Federal Government, in the Medium Term Financial Plan which is published annually with the budget. Though the multi-year estimates are consistent with medium term budgetary targets, the individual spending plans for future years usually add up to a smaller total than the aggregate total in the Financial Plan because of a general planning reserve for each of the future years to cover additional costs of new programmes and possible price increases.

The financial plan covers a five year period; the current year and the year to come, for which the budget bill is prepared and three future years. The macro-economic assumptions of the estimates are based on the probable developments of macro-economic parameters (including price and wage developments), which are developed by interdepartmental working groups, based on the Annual Economic Report of the Government.

MY expenditure estimates are prepared for each of the 7 000 expenditure items in the annual budget for each of the years of the planning period. The MY expenditure estimates are rolled forward; once a year they are prepared and updated during the annual budget deliberations between MF and the spending ministries; simultaneously with the drafting of the annual budget, the expenditure estimates are fixed in cash terms for each of the single expenditure items and programmes for each of the future years. The total expenditure frame is set by the multi-year budgetary target of a certain annual increase (top-down approach of planning). The difference between the sum of all expenditure estimates (bottom-up) and total expenditure by given ratio of annual increase is the general planning reserve.

MYE are published in the Financial Plan, grouped by about 40 categories of functional spending. There is no publication of in-year updates of MYE.

2. Calendar of main points of decision making and activities

The fiscal year (FY(t)) is the calendar year (year t). (See table on page 103.)

3. The annual budget cycle

In December a circular of the Ministry of Finance gives detailed instructions to all Federal agencies concerning the preparation and the submission of agency budget estimates including estimates for the planning period. In general, the ministries are requested to keep their budget bids within the upper limits laid down in the current financial plan. The agency budget submissions are due at the end of February.

Months before start of FY(t)	Main events and activities
(Year t-2)	
13 (December)	MF gives detailed instructions to Federal ministries concerning budget preparations and adjustment of medium-term financial plan.
(Year t-1)	
11-10 (February-March)	Federal ministries submit their bids for the budget and planning years to MF.
11-7 (February-June)	MF deliberations with each Ministry at all levels of officials up to Minister level.
7-6 (June-July)	Final Cabinet decisionmaking regarding draft budget and the Federal Financial Plan.
5 (August)	The Government's budget plus financial plan is submitted to Parliament.
4 (September)	MF delivers budget statement to Parliament at the beginning of the first parliamentary reading.
2-1 (November-December)	Final reading and vote on Government's Budget
1 (December)	Signing by the Federal President and publication
(Year t)	
0 (1st January)	Start of Fiscal Year (t)

The budget requests are evaluated and discussed between the Ministry of Finance and the other Federal departments at three levels:

- By the head of division responsible in the budget directorate for a specific departmental budget;
- By the Director of the budget;
- Finally if necessary at Minister level.

Going through various stages of review the original budget requests are examined and successively brought in line with a level consistent with economic and financial resources. Usually both the Financial Plan and the original budget bids are changed so as to make them consistent.

During budgetary negotiations within the government, MF may if required call for the Cabinet to take a decision of general principle laying down the basic data to be incorporated in the federal budget and the financial plan (rate of increase of aggregate expenditure, total budget volume, borrowing requirement). This reference to the Cabinet has, in fact, not happened since 1983. Cabinet is involved with the final decision of the Government's budget proposal and financial plan.

The final version of the draft budget is decided on by the Cabinet at the end of June/early July. The Government's budget bill must be submitted to the legislative bodies (Bundestag and Bundesrat) before the first reading in Parliament (September).

At the first reading, or general debate, MF delivers a budget speech outlining the government's considerations regarding the budget. Members of Parliament make their initial comments on the budget stating their fundamental points of view. After the first reading the bill is referred to the parliamentary Budget Committee as well as to the Programme Committees for discussion. At the second reading, (end of November/early December) the results of the Budget Committee's discussions are announced as the Committee's decision proposal to the plenary of the Bundestag by the Committee's

rapporteurs and comments of the Bundesrat are available to the Bundestag, together with a counter statement by the Federal Government. This marks the beginning of a three to four-day discussion on the individual departmental budgets. The Bundestag must come to a single decision, i.e. one vote on all the amendments to the bill. At the third and final reading, (one day after the second reading) it is once again the budget as a whole which is the subject of debate, and, in conclusion, a vote is taken on its adoption.

After the Bundestag has voted on the bill it is submitted to the Bundesrat for the second time. The Budget that has to be approved consists of:

- The budget law (consisting of general regulations including total expenditure, total ceilings for guarantees, borrowing authority);
- The budget plan (as supplement to the budget law) containing item by item all authorised expenditure ceilings and estimated revenue plus explanatory notes.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

There are re-examinations of various policy areas partly ad hoc and partly regular, e.g. by government reports to Parliament according to legal instructions. Budgetary consequences are normally taken into account in the following budget preparation phase. There is no general re-examination procedure regarding the budget as a whole (except within the Annual Economic Report which contains a broad description of the main policy areas with possible changes). A certain cross-sector analysis is made by the biannual report on subsidies. Its purpose is a description of the development

of subsidies with the view to a continuous reduction of preserving measures as compared with those helping to cope with structural changes and inducing economic growth. Findings of the report reflect current budget policy and/or influence the next financial plan. Budget-wide cutback proposals, if necessary, are prepared by MF alone, in the process of preparing the new budget draft and the medium term financial plan.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

At the beginning of the budget year, MF hands out a Budget Implementation Circular (Haushaltsführungserlass) with technical and administrative regulations for the spending agencies. Cash management and accounting rules allow for an intra-governmental control of the execution of the budget.

When expenditure is likely to exceed the authorised total the Federal Finance Minister may make commitments or expenditures subject to his approval by blocks on expenditure, after having consulted the competent Federal Ministers. (Last used as a precautionary measure for the planned 1980 supplementary budget.)

MF can under certain conditions (if the need for additional expenditure is unforeseen and unavoidable) authorise excess and/or extrabudgetary expenditure, although this only applies where owing to the urgency of the additional expenditure a supplementary budget cannot be enacted in time or where Parliament has already waived the requirement for a supplementary budget in the Budget Law (namely in cases where the additional expenditure does not exceed DM 10 million or where it arises from a legally binding commitment). In periods of retrenchment policy with relatively low expenditure ceilings, this happens quite often. Twenty to fifty cases (of more than 10 million DM) a year is quite normal.

Parliament is informed about all important departures from the plan - regularly (quarterly) about excess and extrabudgetary expenditures.

Not for budgetary control reasons, but for considerations regarding overall economic development, the Government may apply the provisions of the Law to Promote Economic Stability and Growth (1967), if immediate action is necessary to prevent considerable economic damage and if such action cannot be taken through the enactment of supplementary budgets.

In the event of a substantial decline in general economic activity the Government may decide to authorise additional expenditure. Additional expenditure to counter an economic recession (Konjunkturprogramme) can be authorised by a simplified procedure without the need for a long drawn-out supplementary budget. The MF is authorised by law to raise credits up

to DM 5 billion in excess of the provisions of the budget as adopted; taxation rates can also be decreased. Such economic programmes are prepared by the Government and require the consent of the Federal Parliament (last used 1975, as their effectiveness has come under question).

In order to avoid an overheating of the economy MF can block expenditure and the entering into commitments involving expenditure in future years (Konjunktursperre) as well as increase personal and corporate income tax rates or reduce depreciation allowances. Apart from this, the Federal Cabinet may limit borrowing by the Federation, the Länder and the local authorities. It was last used in 1971.

2. Managerial discretion

The detailed specifications, which are binding for the execution of the budget are in many cases relaxed through budget regulations which permit additional expenditure on some items, provided that equivalent savings are found within certain specified items.

Investment expenditure and expenditure from specifically earmarked revenue may be carried forward. Other expenditure may be declared eligible for carry forward in the budget, if it is earmarked for a purpose covering several years and if this is in the interests of efficiency and economy. Funds in the originating budget year, as a consequence, may not be spent fully.

G. CURRENT REFORMS

An automated procedure of budget execution and accounting (HKR-Verfahren) has reached the implementation phase. It handles, with the help of EDP (Electronic Data Processing), all phases of receipts and expenditure of the federal budget. It provides all executing authorities with all necessary information regarding their current budget situation at any time.

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year is the calendar year (year t).

1. Law on the Adoption of the Federal Budget (*Haushaltsgesetz*) supplemented by the Federal Budget Plan (*Bundeshaushaltsplan*), December, year (t-1).
2. Financial Report of the Federal Minister of Finance (*Finanzbericht des Bundesministers der Finanzen*), containing the economic premises and the principal

fiscal policy issues underlying the Federal budget (among others, the Financial Plan and comprehensive statistical data), August, year (t-1)

3. Annual Economic Report (*Jahreswirtschaftsbericht*) of the Federal Government, responding to the annual report of the Council of Economic Experts (see reference 6 below), January, (year t), (English translation available).
4. Quarterly Report on the Excess and/or extrabudgetary expenditure (*Zusammenstellung der über und ausserplanmässigen ausgaben in ... Vierteljahr des Haushaltsjahres t*).

Other documents

5. Annual Report of the Council of Economic Experts for the Assessment of Overall Economic Trends (*Jahresgutachten des Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung*), November.
6. Report of the Federal Government on Federal Fiscal Aid and Tax Relief (*Subventionsbericht*), every two years usually in Summer.

Note: The above publications may be obtained from:
Verlag Dr. Hans Heger
Postfach 20 08 21
5300 Bonn 2

7. Federal German Budget Legislation (*Haushaltsrecht des Bundes*), English translation available.
8. The German Budgetary System, (*der Bundeshaushalt - unser Geld*), 1984, English translation available.
9. Tasks and Objectives of a New Fiscal Policy, the limits to Public Indebtedness (*Aufgaben und Ziele einer neuen Finanzpolitik - Grenzen staatlicher Verschuldung*), December 1985, English translation available.

Note: Documents referenced under 7 to 9 may be obtained from the point of contact.

Point of contact:

Bundesministerium der Finanzen
Referat II A 1
Graurheindorfer Str. 108
5300 Bonn 1

NOTE

Art. 115 in the Constitution requires that Federal net borrowing shall not exceed total Federal investment expenditure estimates; however, "exceptions shall be permissible only to avert a disturbance of the overall economic equilibrium". In fact the latter has occurred in 2 out of 10 years during the period 1974-1983; since 1984 no such a case has occurred.

GREECE

Any changes which may have taken place in Greece since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION-MAKING

1. Political and organisational structure of government

Greece is a unitary state. The Greek government consists of the Central Government, municipalities, communes (small villages and towns) and the Legal Entities of Public Law, like the Greek Rail Organisation.

Central Government functions are organised mainly around 20 ministries, offices and establishments. It includes the 51 Prefectures (Nomarchia) which are agencies of the central authority. Each Prefecture represents it in all its activities.

The Parliament has one Chamber which consists of 300 members elected for a four-year period. Since last elections (June 1985) only three parties are represented in the Parliament (currently four since the conservative party has been split up into two distinct parties). The government is supported by one (majority) party. All 19 Ministers are a member of Cabinet. While the Prime Minister and the Ministers are normally members of the Parliament, Deputy Ministers and General Secretaries may be appointed persons from outside the Parliament. However, they are all political appointments.

2. Main budgetary organs

The Minister of Finance (MF) is primarily responsible for the fiscal policy and is accountable to the Parliament for both revenues and expenditures of the budget. MF collaborates with the Minister of National Economy (MNE) which formulates the investment budget to be submitted to MF for inclusion in the Government Budget, and has a general responsibility for overall economic and fiscal policy. The MNE is superior to the MF to the extent that the investment budget, once formulated by MNE, cannot be changed by MF.

MF is divided into two Central Services: the State General Accounting Office (GAO), which takes care of the preparation and implementation of both sides of the

budget and the Taxation Service, involved in tax legislation and tax revenue estimation.

The GAO is organised in some 20 divisions and employs nearly 200 people (all grades and supporting staff). The Budget division is the most important one, with 20 members of staff. It co-ordinates all budget activities and it is responsible for drafting the annual budget. It is comprised of counterpart sub-divisions to spending ministries and other entities and monitors but cannot control the ministerial decisions for the adjustment in public spending.

After the introduction of the stabilization programmes (see Section C), a Reviewing Committee has been created in the Ministry of National Economy. Participants are officials and independent economists, under the chairmanship of the Minister of National Economy. Its responsibility is the reconsideration of economic policy. Various groups are working for the specific parts of economic policy and the Fiscal Group is one of them, reviewing fiscal policy and suggesting changes, if necessary.

3. Role of the President, Prime Minister and the Cabinet

The President does not participate in budgetary decisionmaking.

The role of the Prime Minister is very important because he lays down the broad lines of government policy, according to which the MF proceeds with the preparation of the annual Government Budget. Unsolved disagreements between the MF and the spending Ministers concerning, for example, expenditure cuts, have to be resolved by the Cabinet and the Prime Minister himself. The Cabinet also decides any change in tax legislation proposed by the MF.

The final version of the Budget proposals needs approval by the Cabinet before submission to Parliament. Cabinet does not set or approve guidelines at the beginning of the budget preparation. However, a Cabinet committee approves the fiscal target and the budget guidelines put forward by MF. Among the members of this committee (the so called KYSYM or Governmental Council) are the Prime Minister, MNE and MF.

4. Role of Parliament

There is a Parliamentary Committee which prepares debate and decisionmaking in full Parliament.

All central government expenditure is appropriated annually, i.e. including expenditure authorised under separate legislation (e.g. social benefits). Votes are organised in the budget bill per department.

The role of the legislature in shaping the budget is rather limited. The Parliament does not examine the outlays of the budget in any detail. The discussion usually centres around the overall fiscal policy of the government. The Parliament may not reject the budget

as a whole but it does have the authority not to approve any specific appropriation. There are about 1 600 such expenditure appropriations. In practice, the government uses its majority vote to protect its budget proposals and the Budget is passed almost exactly the way it is introduced by the MF.

According to the 1975 Greek Constitution, MF has to submit the budget to the Parliament at least one month before the beginning of the new fiscal year. If Parliament has not approved the budget, for any reason, before the beginning of the new fiscal year, the government is authorised to submit a bill to Parliament which allows the government to continue collecting revenues and

Table 1
General Government Figures
In % GDP, 1984 (1)(2)

From	To	Central Government	Local Authorities(3)	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 14.1 Int.P. 4.3 Subs. 2.0 Soc.Sec.T. 0.8 O.Curr.T. 0.1 Investm. .. Cap.T. ..	Cons. 14.1 Int.P. 4.3 Subs. 2.0 Soc.Sec.T. 1.5 O.Curr.T. 3.4 Investm. .. Cap.T. ..
			O.Curr.T. 3.3	Soc.Sec.T.: Curr. 0.7		
Local Authorities(3)					Cons. 3.7 Int.P. 0 Subs. 0 Soc.Sec.T. 0.3 O.Curr.T. 0 Investm. .. Cap.T. ..	Cons. 3.7 Int.P. 0 Subs. 0 Soc.Sec.T. 0.3 O.Curr.T. 0 Investm. .. Cap.T. ..
Social Security Funds					Cons. 1.4 Int.P. 0.3 Soc.Sec.T. 13.1 Cap.T. ..	Cons. 1.4 Int.P. 0.3 Soc.Sec.T. 13.1 Cap.T. ..
Private Sector		Tax. 19.3 (Ind.Tax.)(13.8)	Tax. 0.7 (Ind.Tax.)(0.3)	Tax. 1.5 (Ind.Tax.)(1.5) S.S.C. 10.8 O.Rec. ..	General Government (Consolidated)	
		O.Rec. ..	O.Rec. ..	O.Rec. ..	Cons. (Wages) 19.2 (13.3) Int.P. 4.6 Subs. 2.0 Soc.Sec.T. 14.2 O.Curr.T. 0.1 Investm. .. Cap.T. ..	Tax. 21.6 S.S.C. 10.8 O.Rec. .. Cons.F.C. ..
Total Revenues		Tax. 19.3 O.Rec. ..	Tax. 0.7 O.Rec. ..	Tax. 1.5 S.S.C. 10.8 O.Rec. ..		
Memorandum (Items: (Cons.F.C.) (Net Lending)		(..) (..)	(..) (..)	(..) (..)		Net Lending ..

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- The sector Local Authorities refers to Local Authorities and Public Funds

Source: OECD, Annual National Accounts.

GREECE

implementing current programmes. If Parliament cannot vote this specific bill before the beginning of the fiscal year then by presidential decree the previous year's budget is extended for a four-month period.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Local authorities (municipalities and communes) have very limited autonomy in Greece. Certain measures taken in the last five years aim to give local authorities greater autonomy but they have not been completed yet. Their financial position is weak due to limited funds from local tax collection or borrowing from capital markets. They rely heavily on government transfers and subsidies, the latter being transferred to local authorities to cover part of their deficit. The state

budget also collects revenue on behalf of local authorities and transfers the proceeds to them (among which real estate tax receipts and 20 per cent of road duties). Another significant portion of local authorities revenue is collected through public utility bills (especially electricity) which do not appear in Central Government's budget.

Social Security is only to a minor extent on budget. Social Insurance Funds take care of the larger parts financing their expenditure by levies and surcharges on taxes. The Farmer's Insurance Organisation (OGA) covers the farmer's health and pension schemes. It also covers agricultural production damages. To finance OGA schemes, the government applied a 10 per cent surcharge on income tax levied on behalf of OGA. Nowadays, the surcharge has been abolished but the Government still pays to OGA 10 per cent of total income tax collection. There is also a 2.5 per cent levy on wholesales of agricultural products for OGA. That levy will be abolished with the introduction of VAT. The

Table 2
General Government Figures
In % GDP, 1974 (1)(2)

Notes: see table 1.

From	To	Central Government	Local Authorities(3)	Social Security Funds	Private Sector	Total Expenditure
Central Government			0.Curr.T. 1.8	Soc.Sec.T.: Curr. 0.2	Cons. 11.1 Int.P. 1.3 Subs. 2.6 Soc.Sec.T. 0.6 0.Curr.T. 0.2 Investm. .. Cap.T. ..	Cons. 11.1 Int.P. 1.3 Subs. 2.6 Soc.Sec.T. 0.8 0.Curr.T. 2.0 Investm. .. Cap.T. ..
Local Authorities(3)					Cons. 2.0 Int.P. 0 Subs. 0 Soc.Sec.T. 0.4 0.Curr.T. 0 Investm. .. Cap.T. ..	Cons. 2.0 Int.P. 0 Subs. 0 Soc.Sec.T. 0.4 0.Curr.T. 0 Investm. .. Cap.T. ..
Social Security Funds					Cons. 0.7 Soc.Sec.T. 6.2 Cap.T. ..	Cons. 0.7 Soc.Sec.T. 6.2 Cap.T. ..
Private Sector	Tax. 15.7 (Ind.Tax.) (11.2) O.Rec. ..	Tax. 1.1 (Ind.Tax.) (0.7) O.Rec. ..	Tax. 0.8 (Ind.Tax.) (0.8) S.S.C. 6.4 O.Rec. ..	General Government (Consolidated) Cons. 13.8 (Wages) (9.6) Int.P. 1.3 Subs. 2.6 Soc.Sec.T. 7.1 0.Curr.T. 0.2 Investm. .. Cap.T. ..		
Total Revenues	Tax. 15.7 O.Rec. ..	Tax. 1.1 O.Rec. ..	Tax. 0.8 S.S.C. 6.4 O.Rec. ..	Tax. 17.6 S.S.C. 6.4 O.Rec. .. Cons.F.C. .. Net Lending ..		
Memorandum Items: (Cons.F.C.) (Net Lending)	(..) (..)	(..) (..)	(..) (..)	(..)		

Social Insurance Institution (IKA) covers the workers and the private sector employees' health and pension schemes and collects insurance premiums directly from employers and employees, but it is also subsidised through the government budget. The National Health System (ESY), which is still developing, is financed through the government budget. Parliament has to approve changes to the existing terms of entitlement, rate of benefits and the social security contributions.

The State Budget provides grants to those enterprises which are not profitable anymore in order to cover part of their deficit. Investment plans of Public Enterprises are totally financed by loans. Public Enterprises and other Public Organisations are quite a substantial sector. The borrowing requirement of 50 major public organisations amounted to some 3 per cent GDP in 1984.

Table 3 shows a breakdown of current expenditure by functional classification indicating the percentage share of total state budget expenditure.

Table 3. Functional Classification
of Public Current Expenditure (1984)
As percentage of total

Administration	31.3
Defence	33.9
Justice	3.7
Health	11.0
Welfare	1.6
Education	15.2
Other	3.3
Total	100.0

Source: Provisional National Accounts of Greece, 1985, tableau 6 (see section II).

C. STRATEGIC AIMS AND GLOBAL NORMS

Medium term fiscal targets have always been incorporated in the annual five-year Economic Development Plan; in addition, they are also stated in the annual government budget. They refer to the reduction of the Government Budget deficit (GBD) as well as to the reduction of the Public Sector Net Borrowing requirement (Net PSBR) as a percentage of GDP. The GBD target refers to the Central Government budget deficit and is defined to cover the difference between total revenue and total, current and investment expenditure, on an administrative basis. The net PSBR target includes the borrowing requirements of the Central Government, local authorities and the 50 larger public enterprises. In October 1985, the government started a two-year (1986-1987) stabilization programme which elaborates and, in part, replaces the five-year Economic Development Plan. The targets put forward in that

programme were a reduction of the PSBR by 8 percentage points of GDP (4 points each year) and a drastic reduction of inflation. The capital account deficits have now to contribute to the PSBR target as well, whereas in the period 1982-1985 investment expenditure was targeted to grow at a minimum rate of 0 per cent in real terms. It is understood that the current account should close in the longer term.

The following table provides an indication of the performance of target variables.

Table 4. Fiscal Indicators 1981-1986
As percentage of GDP

	1981	1982	1983	1984	1985	1986 (target)
GBD	12.8	9.4	9.9	10.3	14.1	(10.6)
Net PSBR ¹	16.4	13.3	11.6	14.3	15.9	(11.1)

¹ Not including amortisation

Source: OECD, Economic Survey, Greece, 1983 et 1985

Bank of Greece, Governor's Annual Report (see section II)

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

All budgets prepared by the government are annual budgets. There is no multi-year budgeting practice although each year's annual budget must be coherent with the fiscal policy guidelines of the five year Development Plan. The only exception was the two-year stabilization programme, but no detailed estimates were provided, nor do they exist.

2. Calendar of main points of decisionmaking and activities

The fiscal year (FY(t)) is a calendar year (year t).
(See table on page 110.)

3. The annual budget cycle

Preparation of the Central Government Budget takes place in the following stages.

Early in the summer, the MF issues a circular with instructions to all Ministries and Prefectures, asking them to prepare their proposals on spending over the next year. The Financial Service in each ministry gathers the proposals of all services in the ministry which are usually accompanied by detailed justification on each spending item. It then consults with the Ordered Expenses Office (OEO) which makes suggestions in reviewing the proposals in depth. The OEO is superior to

Months before start of FY(t)	Main events and activities
(Year t-1)	
8 (May)	MF issues guidelines to spending Ministries and Prefectures, explaining the budget constraints and the limits within which they should form their spending proposals.
7-5 (June-August)	Ministries and Prefectures submit their expenditure proposals to GAO for examination. The GAO makes first round cutbacks and the MF consults with the Minister of National Economy as to the possible budget strategies.
5-3 (August-October)	GAO, under the instruction of MF, scrutinises proposals and holds discussions with each spending Ministry. Cabinet decides on the targeted budget deficit, based on both the expenditure and tax policies proposed by MF. MF himself supervises the last round of expenditure cuts.
2 (Mid-November)	Finalisation and submission of the budget and related documents to the Parliament.
(Year t)	
0 (1st January)	Start of fiscal year (t)

the Financial Service to the extent that Financial Services cannot make any payments, unless with the approval of OEO. After the proposals have been approved by the Minister, the OEO of each ministry submits them to the GAO mid-August. Prefectures, through Economic Administrative sections gather the forecasts from all their services and submit them to the Ministry of the Interior. The Ministry of the Interior assesses these estimates and forwards them to the GAO.

From August to October the Budget Division in the GAO scrutinises and discusses the proposals with the relevant ministries. The figures can be modified by the Minister of Finance, after he has consulted with the Minister of National Economy. The purposes of these bilateral discussions is to contain the rate of growth of public expenditure within the limits of the fiscal policy targets. At the same time, the Taxation Service estimates next year's tax revenue in the light of the instructions given by Ministry of National Economy, with respect to the estimates of expected GDP and inflation rates for the next year. The Minister of Finance then briefs the Government and it is then decided if and how the proposed fiscal policy should be changed.

The above procedure holds also for the formulation of the public investment budget, which covers all types of investment expenditure including capital transfers and which is administered by the Ministry of National Economy. Once the Investment Budget proposals have been formulated, they are forwarded to the Ministry of Finance (GAO) to be incorporated – without MF having the possibility to change anything – in the Central Government Budget.

The overall Government Budget once finalised (mid-November) is submitted to the Parliament. Discussion of the Budget proposals and the fiscal policy of the Government in the Parliament takes place between 15 and 20 December.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

Review activities are almost exclusively linked to the implementation stage of the budget (see Section F).

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

The Fiscal Group reviews the implementation of the government budget and the budgets of Public Enterprises on a monthly basis and reports to the Reviewing Committee. The Reviewing Committee makes suggestions with respect to the necessary policy changes, to the MNE who collaborates with the MF in deciding the measures to be taken. Implementation of the Budget as far as the expenditure side is concerned is a procedure where the Minister of Finance is directly and continuously involved. MF has the authority to regulate the flow of actual spending by allowing only a certain proportion of annual appropriations to be spent in each month (the "payments limit") for certain categories of spending (grants, government supplies etc.). All monthly amounts do not necessarily have to add up to 100 per cent. If unspent balances result from a lesser percentage than 100, overruns in some categories of expenditure may be covered by these balances.

No overruns in annual appropriations or commitments are allowed for, unless with the consent of MF, declaring he will cover the overruns in cash or in commitments from the reserve fund. The reserve fund is not appropriated, but it is entered in the budget as a total

amount. Usually it does not exceed 2 per cent of the total current expenditure and it is used to cover unforeseen necessary expenditure and insufficient appropriations. Normally, it covers overruns in debt servicing or damages of agricultural production; generally it covers types of expenditure for which there can be no provision in the budget.

Though the Greek budget is cash-based, no commitment is allowed unless there is an appropriation for the specific expenditure. Overruns are justified only in cases where exact estimations are impossible.

Formally, the Parliament is informed about the budget implementation by the time that the new budget is entered for discussion. However, Parliament is informed about the execution of the budget whenever they ask for it.

2. Managerial discretion

Every Minister is accountable both to the Cabinet and to the Parliament for the policy followed in his Ministry and for the efficient use of resources allocated to his Ministry.

Unspent balances of appropriations are not transferred to the next year's budget. The fiscal year coincides with the calendar year but may be extended for a few months only to clear up commitments undertaken up to the end of the normal fiscal year. If a cash payment on a capital investment project is delayed beyond the extension period of the fiscal year, ending in March of the following year, the payment is made as a charge on the next year's appropriation. Commitments generating future capital expenditure can be undertaken if necessary for the continuation of the investment projects.

Appropriations cannot be transferred from one category of expenditure to another, unless approved by MF.

G. CURRENT REFORMS

Computerisation that increases productivity of public services, reduces bureaucracy and facilitates budget controls, is an on-going task.

Another important reform has been the gradual decentralisation, within Central Government, in planning. The government has given the Prefects the authority to plan and execute within the limits of the budget, small scale public works of socio-economic interest.

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year is the calendar year (t).

1. Annual Introductory Report to the Government Budget (*Proipologismos-Isigitiki ekthesi*), containing the current economic developments and summarising fiscal policies of the budget; gives a short analysis of budget revenues and expenditure, end November, year (t-1).
2. Balance sheet of the Central Government (*Isologismos*), Budget Outturn (*Apologismos*), end November, year (t+1).
3. Budget Revenues and Expenditure Bills (*Proipologismos*) concerning the detailed presentation of both revenues and expenditure, end November, year (t).

Other documents

4. Five Year Economic Development Plan (*Pentaetes Programma Ikonimikis Anaptixis*), no fixed date of publication, English summary available.
5. Bank of Greece, Governor's Annual Report (*Trapeza tia Ellados-Ekthesi tu Diikiti*), English translation available, April, year (t).
6. Provisional National Accounts of Greece (*Prosorini Ethniki Logariasmi tia Ellados*), May, year (t) (Quarterly publications available in English).

Point of contact

Direction of International Economic Affairs (DOS)
Section C
Ministry of Finance
Athens 101.84

IRELAND

Any changes which may have taken place in Ireland since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

Ireland is a unitary state. There are two layers of government; central government, including the State-sponsored body sector and regional government which includes regional health boards and local authorities (municipalities) (see Section B for more information).

Central government functions are organised mainly around 15 Ministries and state agencies.

The Government consists of the Prime Minister (Taoiseach), the Deputy Prime Minister (Tánaiste) and thirteen Ministers. In addition, there are fifteen other deputy Ministers (Ministers of State) who do not have Cabinet rank and who are appointed by the Government to discharge particular responsibilities delegated to them.

The legislature (Oireachtas) consists of the President, who is Head of State under the Constitution, the lower House (Dail Eireann) and the upper House (Seanad Eireann). Ministers must be members of a House of the Oireachtas. The Prime Minister, Deputy Prime Minister and Minister for Finance must all be members of the Dail. There are five registered political parties represented in Dail Eireann of whom two support the Government. The next regular elections are due in 1987.

2. Main budgetary organs

The Minister for Finance takes the lead role in budgetary matters. He has an overall authority and responsibility in relation to public expenditure and revenue and the debt-servicing programme.

The Department of Finance (DF) consists of three main divisions. The Public Expenditure Division is responsible for general public expenditure policy and the control of expenditure by government Departments and State agencies. Policy formulation, monitoring and control functions are exercised in relation to some 75 per

cent of Exchequer financed current expenditure and to all capital expenditure. The remaining 25 per cent of current expenditure arises mainly as debt servicing costs paid from the Central Fund (see section A4), and falls within the remit of the Finance Division, which is also responsible for the borrowing programme and for forecasting and monitoring of non-tax revenues. Finally the Budget and Planning Division is responsible for macro-economic forecasting and economic planning, and for taxation matters. The latter task is performed in co-ordination with the Revenue Commissioners who are given responsibility under law for the administration and collection of taxes.

The central sections in each division, and the forecasting sections, liaise formally and act in concert through a Budget Co-ordinating Group which meets regularly to review the current year's budget and to plan for the following years' budgets.

The Minister for the Public Service is responsible for policy and action on organisation and numbers in the non-industrial civil service and for pay policy in the public sector as a whole. There is close liaison between the Department of Finance and the Department of the Public Service on these issues.

3. Role of Prime Minister and Cabinet

The Prime Minister (Taoiseach) is responsible for the overall direction of Cabinet meetings. He exercises a pivotal role in all Government discussions. There are regular informal contacts between the Prime Minister, Deputy Prime Minister and Minister for Finance on budgetary and broad expenditure questions.

At the beginning of the budget cycle the Minister for Finance proposes broad budgetary targets to the Cabinet for approval. These, when adopted, provide the framework for negotiations between DF and the spending Departments, and subsequently between the Minister for Finance and other Ministers on the spending proposal of the latter. Subsequently the Cabinet decides on expenditure issues which remain unresolved between the Minister for Finance and his colleagues. Finalisation of the budget also requires Cabinet decisions on specific taxation changes.

4. Role of Parliament

The budget statement is delivered in the Dail. Financial resolutions (proposals on taxation) which give effect to taxation changes requiring immediate approval are introduced in the Dail on Budget Day. (See section D.)

The Government's annual expenditure estimates are presented concurrently to both Houses of Parliament some weeks before Budget Day. Only the Dail has the power to amend legislation involving public monies; as noted below, however, it is not empowered to amend

estimates – only to adopt or to reject them. Standing Orders (procedural rules) of the lower House preclude any addition or reduction in the annual estimates. The Upper House does not debate the budget per se; it does however consider the annual Finance Bill (taxation) and Appropriation Bill (expenditure) on which it may make recommendations which the Dail may either accept or reject. Government policy and administration may be examined and criticised in both Houses but, under the Constitution, the Government is responsible to the Dail alone. On all Bills, the overriding authority of the Lower House vis-à-vis the Upper House may be asserted.

Table 1
General Government Figures
In % GDP, 1983 (1) (2) (3)

From	To	Central Government	Local Authorities (5)	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 9.6 Int.P. (3) 9.1 Subs. 3.6 Soc.Sec.T. 7.0 O.Curr.T. 2.2 Investm. 0.9 Cap.T. (4) 1.1 33.6	Cons. 9.6 Int.P. 9.1 Subs. 3.6 Soc.Sec.T. 9.0 O.Curr.T. 12.9 Investm. 0.9 Cap.T. (4) 2.1 47.3
			O.Curr.T. 10.7 Cap.T. (4) 1.0 11.7	Soc.Sec.T.: Curr. 2.0		
Local Authorities (5)					Cons. 9.7 Int.P. (3) 1.8 Subs. 0.1 Soc.Sec.T. 2.0 O.Curr.T. 0.1 Investm. 3.2 Cap.T. (4) -0.4 16.5	Cons. 9.7 Int.P. 1.8 Subs. 0.1 Soc.Sec.T. 2.0 O.Curr.T. 0.1 Investm. 3.2 Cap.T. (4) -0.4 16.5
Social Security Funds					Cons. 0.4 Soc.Sec.T. 7.1 7.5	Cons. 0.4 Soc.Sec.T. 7.1 7.5
Private Sector		Tax. 30.9 (Ind.Tax.) (16.8) S.S.C. 1.9 O.Rec. (3) 4.5 37.4	Tax. 0.8 (Ind.Tax.) (0.8) S.S.C. 0.6 O.Rec. (3) 0.9 2.3	S.S.C. 5.3 O.Rec. (3) 0.1 5.4	General Government (3) (Consolidated)	
					Cons. 19.7 (Wages) (..) 9.2 Int.P. (3) 3.6 Subs. 3.6 Soc.Sec.T. 16.2 O.Curr.T. 2.3 Investm. 4.1 Cap.T. (4) 0.7 56.0	Tax. 31.6 S.S.C. 7.9 O.Rec. (3) 3.8 Cons.F.C. 1.0 44.4
Total Revenues		Tax. 30.9 S.S.C. 1.9 O.Rec. 4.5 37.4	Tax. 0.8 S.S.C. 0.6 O.Rec. 12.6 14.0	S.S.C. 5.3 O.Rec. 2.1 7.4		Net Lending -11.5
Memorandum Items:						
(Cons.F.C.)		(0.4)	(0.7)			
(Net Lending)		(-9.6)	(-1.8)	(-0.1)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Due to consolidation problems, total general government is not equal to the sum of the subsectors.
- Capital transfers paid are netted against those received.
- Local Authorities include Health Boards,

Source: OECD, Annual National Accounts.

All budget and estimates discussions take place in the Dail and are debated on the floor of the House. There is no parliamentary committee with a role in preparing for these debates.

Debt servicing expenditure and certain other expenditure such as contributions to the EEC Budget and capital issues to semi-State bodies and local authorities do not have to be voted annually as they are met from the Central Fund under the standing authority of specific legislation passed by Parliament. All other Exchequer-financed expenditure must, however, be appropriated annually by Parliament. Taxation measures, announced in the Budget¹, are given statutory effect in the Finance Act. Parliament does not approve multi-year estimates. Parliament controls the money to be spent by voting on the Annual estimates. The lower House passes about 50 votes covering all Exchequer-financed expenditure requiring annual appropriations. When passed, these are then included in the annual Appropriation Act. The Appropriation Act specifies a) total (gross) expenditure

and b) Appropriations-in-Aid (receipts) for each Vote. Supporting information on the allocation of expenditure within each Vote is presented to both Houses of Parliament in the Estimates Volume.

In any financial year, Departments may spend up to 5% of the previous year's appropriations pending parliamentary approval for the current year's estimates.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Tables 1 and 2 above indicate that the General Government sector is among the largest in OECD countries, with a relatively big central government. General Government Borrowing as a proportion of GDP

Table 2
General Government Figures
In % GDP, 1974 (1) (2) (3)

In % GDP, 1974 (1)(2)(3)										Notes: see table 1	
To	Central Government		Local Authorities(5)		Social Security Funds		Private Sector		Total Expenditure		
From											
Central Government			O.Curr.T.	6.8	Soc.Sec.T.: Curr.	0.9	Cons.	8.5	Cons.	8.5	
			Cap.T.(4)	0.7			Int.P.(3)	3.6	Int.P.	3.6	
				7.5			Subs.	3.0	Subs.	3.0	
							Soc.Sec.T.	5.7	Soc.Sec.T.	6.6	
							O.Curr.T.	1.9	O.Curr.T.	8.7	
							Investm.	1.3	Investm.	1.3	
							Cap.T.(4)	1.3	Cap.T.(4)	2.0	
								25.4		33.9	
Local Authorities(5)							Cons.	8.4	Cons.	8.4	
							Int.P.(3)	1.2	Int.P.	1.2	
							Subs.	0	Subs.	0	
							Soc.Sec.T.	1.4	Soc.Sec.T.	1.4	
							O.Curr.T.	0.1	O.Curr.T.	0.1	
							Investm.	3.6	Investm.	3.6	
							Cap.T.(4)	-0.4	Cap.T.(4)	-0.4	
								14.3		14.3	
Social Security Funds							Cons.	0.2	Cons.	0.2	
							Soc.Sec.T.	4.5	Soc.Sec.T.	4.5	
Private Sector	Tax.	24.7	Tax.	2.7			General Government(3) (Consolidated)				
	(Ind.Tax.)	(14.9)	(Ind.Tax.)	(2.7)							
	S.S.C.	1.6	S.S.C.	0.5	S.S.C.	3.5	Cons.	17.2	Tax.	27.4	
	O.Rec.(3)	29.1	O.Rec.(3)	3.8	O.Rec.(3)	3.6	Int.P.(3)	(..)	S.S.C.	5.6	
							Subs.	3.7	O.Rec.(3)	2.2	
							Soc.Sec.T.	3.0	Cons.F.C.	0.8	
							O.Curr.T.	11.4		36.0	
							Investm.	2.0			
							Cap.T.(4)	4.9	Net Lending	-7.0	
								23.0			
Memorandum Items:											
(Cons.F.C.)	(0.3)		(0.5)								
(Net Lending)	(-4.5)		(-2.5)		(0)						

went up from 7 to 11½ percentage points in the ten years from 1974.

Local authorities are responsible for such local services as provision of housing, roads, sanitary services, refuse collection etc. Local authorities have certain powers of revenue collection but about two thirds of their current expenditure and practically all of their capital expenditure is provided by way of Exchequer grants, loans and subsidies. Within broad policy parameters and cash limits set by the Government the local authorities have freedom of operation. Local authorities have access to capital markets but rarely avail of this. The right of access is subject to control by the Department of the Environment, controlling local authorities' spending, and the Department of Finance.

Local authorities act as agents of Government in delivering social services only in the housing area. Social services such as Education and Income Supports are provided directly by Departments while the major part of the Health services are administered by the Health Boards.

The nation's health services are administered on a regional basis. The Health Act of 1970 set up a regional administrative structure under 8 Health Boards which have responsibility for the day to day implementation of Government health policy. Of total gross public expenditure on health care about 70 per cent is spent by the Health Boards; the remaining 30 per cent is spent by other state funded health agencies including voluntary hospitals and homes for the mentally handicapped. Almost all of the Health Boards' expenditure is financed by the Exchequer.

The Exchequer apart, by far the largest fund is the Social Insurance Fund. The expenditure of the Fund goes on a wide range of schemes covering unemployment, short and long term disability, retirement, old age and widows pensions. The income of this Fund comprises contributions of employers and employees at rates determined annually by the Government in the context of the Budget together with an Exchequer contribution, made via the Department of Social Welfare, to bridge the gap between receipts and expenditure commitments. Changes in Social Insurance contributions require Parliamentary approval. Government controls the level of benefit and entitlement conditions under the Social Insurance Fund.

State bodies are considered either commercial or non-commercial, the latter category defined as not being involved in the production and marketing of goods and services. Apart from relatively small amounts of own resources generated from the marketing of services to clients, the current and capital resources of the non-commercial State bodies consist of Exchequer grants channelled to them via their parent Departments. In principle the commercial State bodies are expected to operate without continuing Exchequer support. Trading activities of these bodies are not reflected in the budget accounts.

The capital investment programmes of the commercial State sponsored agencies are approved each year by the Government and provided for in the annual Public Capital Programme (see below) which specifies the mix of Exchequer capital, internally generated funds and external finance in total project financing. As stated above, commercial state bodies are expected to operate without continuing Exchequer support. However, as the State is normally the sole shareholder of these bodies the Exchequer has on occasions been obliged to provide (balance sheet) reconstruction finance by way of loans or share purchase under statutory authority for bodies which have encountered financial difficulties. The dependence of non-commercial State bodies on the Exchequer for resources varies according to the nature of the body and the activities it is engaged in. Overall the non-commercial sector derives about 30 per cent of its funding from non-Exchequer sources. Since 1983 commercial State agencies have been required to submit five year corporate plans to their parent department and to the Department of Finance. These plans must now also be rolled over annually.

Both a current and a capital budget exist. The current budget comprises the Exchequer financed, current expenditure as well as all Central Fund financed expenditure.

The capital budget comprises (i) all loans, grants and investments, which lead to the creation of fixed capital under the Public Capital Programme and (ii) certain other capital payments relating mainly to the restructuring of commercial state bodies which are described as non-programme outlays.

The Public Capital Programme includes the planned investment of central Government, local authorities and semi-State bodies. This expenditure is financed both from Exchequer and non-Exchequer sources. The non-Exchequer comprises semi-state bodies' own resources (40 per cent) (trading receipts, depreciation funds) and borrowing (60 per cent). (Percentages are based on 1984 expenditure figures). Capital expenditure may be either voted or non-voted. In the former case, the annual Estimates/Appropriation Act provide the necessary authority for expenditure while, in the latter case, Parliament, having determined in legislation specific limits on capital expenditure/borrowing for particular State companies, does not also require the Government to seek authority for annual expenditure within these approved ceilings.

A breakdown of current and capital expenditure by functional classification indicating the percentage share of the total for each area in 1985 is set out below.

C. STRATEGIC AIMS AND GLOBAL NORMS

Medium term targets are communicated in the multi-year economic plans. The most recent economic

IRELAND

Table 3a. Functional Classification of Gross Central Government Current Expenditure
Amounting to 51% GDP; 1985
As percentage of total

Debt service	22
Economic services	
Industry, Tourism and Labour	3
Agriculture, Fisheries and Forestry	5
Infrastructure	
Roads, Transport and Sanitary Services	1
Social Services	
Health	12
Education	11
Social Welfare	26
Housing	2
Subsidies	4
Security	7
Other	7
Total	100

Table 3b. Functional Classification of Capital Budget Expenditure
Amounting to 10% GDP; 1985
As percentage of total

Sectoral Economic Investment	
Industry and Tourism	18
Agriculture, Fisheries and Forestry	5
Productive Infrastructure	
Roads and Sanitary Services	14
Transport	4
Energy	14
Telecommunications, Postal Service and broadcasting	9
Social Infrastructure	
Hospitals	3
Education	6
Housing	23
Government construction	4
Total	100

Source: Pre-budget Tables and the Public Capital Programme, published in the Budget Booklet (see section H).

plan, *Building on Reality*, published in October 1984, covers the period 1985-1987. The Plan specifies a number of broad medium-term targets, expressed as a percentage of GNP: central government's current budget deficit (CBD); the Exchequer borrowing requirement (EBR) which includes net borrowing by central government in respect of capital expenditure; the public sector borrowing requirement (PSBR) which

consists of both EBR and borrowing by commercial state-bodies in respect of capital investment; aggregate non-capital spending; and aggregate public capital expenditure.

The current plan has specified targets for 1987 as indicated in the table below. For the years 1980-1986 performance on realisation of targets has been added.

Table 4. Fiscal Indicators 1980-1987

	1980	1981	1982	1983	1984	1985	1986 (est.)	1987 (target)
Current Budget Deficit ¹	6.1	7.4	8.0	7.1	7.0	8.2	7.4	(5.0)
Exchequer Borrowing Requirement ¹	13.5	15.9	15.8	13.1	12.4	12.9	11.8	(9.7)
Public Sector Borrowing Requirement ¹	17.3	20.3	20.0	16.9	16.2	15.7	14.2	(11.3)
Aggregate Non Capital Spending ²	3.7	4.7	5.9	6.7	7.0	7.6	8.0	(8.5)
Aggregate Public Capital Expenditure ²	1.2	1.7	1.9	1.7	1.7	1.7	1.7	(1.8)

1. As % of GNP

2. \$ billions

Source: Summary of Current and Capital Budgets, published in the Budget Booklet (see section H); Public Sector Borrowing Requirement, Department of Finance.

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

There is at present no formalised system of detailed medium term expenditure allocations in operation, though forecasts are prepared in connection with the development of Government medium-term plans. The Programme of Government of the present administration includes a budgetary paragraph but no targets are specified.

The most recent such plan, published in October 1984, did go somewhat further than previous planning documents by setting out planned provisions for 1985-1987 for current expenditure disaggregated over minis-

terial areas of control and for capital expenditure to the level of the various functional categories. Though the multi-year provisions in the plan reflect the cost of government-approved plans for the period, the document did qualify these provisions by indicating that they would be subject to variation in the light of the annual estimates procedure. Multi-year provisions are in current prices.

Multi-year estimates are updated annually by spending departments.

2. Calendar of main points of decisionmaking and activities

The fiscal year (FY(t)) is the calendar year (year t).

Months before start of FY(t)	Main events and activities
(Year t-1)	
9-7 (April-June)	Government approves targets for the CBD, EBR and PSBR
7 (June)	DF issues guidelines to spending Departments, which inter alia explain the parameters within which the budget will operate and which seek appropriate adjustments to existing spending plans.
6-4 (July-September)	Departments submit draft expenditure estimates to DF for examination. Subsequently, DF briefs government, which makes decisions on detailed budget strategies.
4-3 (September-October)	DF discussions with departments
2 (mid-November)	Publication of detailed estimates after agreement by the Government, that provide the basis for seeking appropriations from Parliament.
(Year t)	
0 (January 1st)	Start of fiscal year (t)
(+1/+2) (Budget Day, late January-early February)	The Dail deliberates and decides by way of financial resolution on those taxation proposals that require immediate decision and on any changes in expenditure allocations
(+3) (March)	Revised Estimates are published
(+4/+5) (April-May)	Enactment of Finance Bill

3. The annual budget cycle

Work on the budget generally begins in the second quarter of the year. The Government is presented with an analysis of economic and budget prospects for the following year and on the basis of this information is requested to approve broad budgetary targets (including targets for capital and current expenditure). Once the Government has adopted targets, guidelines are issued to other Departments by the Department of Finance (usually around June) setting out the parameters within which expenditure estimates for the following year must be drawn up.

Draft estimates of expenditure are generally received by the Department of Finance in late August/early September and are reviewed in the context of the latest assessment of overall budget prospects. The Minister for Finance then briefs the Government and the broad outline of budget strategy is defined in greater detail. On this basis he settles with his colleagues, either individually or at Government, the estimates for individual Departments. This process, part of which is carried out at official level, generally occupies the period September-October. The detailed estimates when agreed by the Government have in recent years been published around mid-November, about two months in advance of the Budget.

The final elements of the budget are refined right up to Budget Day. Certain additional expenditure allocations are traditionally made on budget day (e.g. provision for revision of social welfare) and the possibility of other expenditure revisions, downward as well as up, which might be required in the light of the most up-to-date assessment is not precluded. Decisions are made on specific changes in taxation and other financial adjustments within the broad parameters of tax policy settled earlier. These are announced on Budget Day.

Detailed changes are incorporated in the annual Finance Bill which is introduced some two months after Budget Day. The Finance Bill must be enacted within four months of Budget Day. Changes to the Estimates published are incorporated in revised Estimates which are published usually in March.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

In March 1985, a Cabinet Committee on Public Expenditure Reviews was appointed by the Government to review existing expenditure programmes. Each programme is reviewed in terms of objectives, priority, means of implementation, benefits, financial implications etc., and the review team reports within a specified time scale depending on the nature of the programme involved.

The primary objectives of the review initiative is to make recommendations that will lead to expenditure savings from the cancellation of out-moded programmes or from the provision of more efficient and effective programmes. The reviews are comprehensive in nature and are carried out by review teams drawn from the Departments of Finance and the Public Service and the Department under whose responsibility the programme under review falls.

In addition to this Cabinet review process, spending Departments themselves engage in other expenditure reviews, usually in conjunction with the Department of Finance. In undertaking these reviews, Departments can avail of the services of analysts who have undergone specific two-year training at post graduate level in analytic techniques.

Procedures for parliamentary supervision and review of public expenditure programmes have been improved by the establishment of a Public Expenditure Committee of the Dail. This new committee, which is charged with reviewing the justification for and effectiveness of ongoing expenditure, complements the work of the Public Accounts Committee which is primarily concerned with the regularity and propriety of expenditure already incurred.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

Public expenditure may only be undertaken with the authority of Parliament given in either the annual Appropriation Act or in specific enabling legislation. In addition it requires the sanction of the Minister for Finance which may either be specific (for once-off expenditures) or delegated.

Expenditure not having the sanction of the Minister for Finance cannot be charged against money voted by Parliament. If spending Departments enter into commitments which do not have this authority, sanction may be withheld if the Department of Finance determines that the commitments ought not to have been incurred.

In Ireland, capital expenditure commitments for succeeding years are limited administratively to 65 per cent of the current budget year's allocation. This figure may, however, be varied with the specific approval of the Minister for Finance. All departments and State bodies under their responsibility report each month on the level of contractual commitments and other quasi-contractual commitments entered into for the following year.

To ensure tight control of expenditure and adequate notice of potential deviations from target departments are required to: submit a profile of expenditure by month to the Department of Finance for approval at the beginning of the year, and monthly returns of actual and forecast expenditure including explanations of variations from profile.

If actual expenditure in any given month is less than the amount specified in the approved profile for that month, this will normally be regarded as a saving for the year, i.e. is not available for spending later in the year. Approval for expenditure in a particular month in excess of the approved profile is only given where there is a clearcut understanding that it will be offset by specific compensating measures later in the year.

Data on Exchequer-financed income and expenditure is published weekly. At the end of each quarter in the fiscal year, the Government presents an analysis of the detailed budgetary data for that quarter, assesses the trends in the year to date and gives a view as to the likely outcome for the rest of the year. If corrective action to ensure adherence to budget targets is decided upon, information to this effect is provided to Parliament.

2. Managerial discretion

Under statute each Minister is responsible to Parliament for all policy matters. The civil service head of a Department (its Secretary) is normally appointed Accounting Officer by the Minister for Finance to be responsible to Parliament (through the Public Accounts Committee) for the proper expenditure of money from his Vote in execution of the policy of his Minister. The Accounting Officer is personally responsible for the safeguarding of public funds and property under his control, for the regularity and propriety of all the transactions in each Appropriation Account bearing his signature and also for the efficiency and economy of administration in his Department. This legal responsibility cannot be delegated to subordinate officers. However the Accounting Officer can and does delegate managerial responsibilities for the day to day administration of his Department and the areas for which it has responsibility.

During implementation, transfer of funds between votes is not possible unless with the approval of Parliament. Funds not expended must, by and large, be surrendered. On capital expenditure forward commitments are possible. This is an administrative facility, which was introduced in recognition of the need for rational planning of capital investment.

G. CURRENT REFORMS

"Guidelines for Financial Management" was circulated to all spending Departments in 1984. The Guidelines identify significant features of modern commercial management accounting practice which are considered appropriate for the public service which is pursuing a path to modernisation.

At present two particular subjects are under study:

1. Relation between financial management and information technology;
2. Generation of productivity criteria.

An increasingly more detailed programme presentation of public expenditure has been produced on an experimental basis in each of the past three years.

Proposals are being developed to standardize the information provided in the Estimates Volume.

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year is the calendar year (year t).

1. *Estimates for Public Services (Abridged Version)*, otherwise known as *The Abridged Estimates Volume*, contains outline pre-budget.

2. *Revised Estimates for Public Services*, which is published on a post-budget basis is otherwise known as *The Estimates Volume* and contains fuller details of Departmental spending allocations. February (t).
3. *The Public Capital Programme*, sets out in detail the planned investment programmes of Government Departments, local authorities and state bodies. It also sets out the Exchequer and other financing commitments necessary for the implementation of investment plans for the year in question, November/December (t-1).
4. *The Budget booklet*, contains the financial statement of the Minister for Finance, the principal features of the Budget and the financial resolutions to give effect to those taxation measures which are intended to have effect before the Finance Bill is enacted, February/March (t).
5. *The Finance Accounts*, give detailed information on receipts into and expenditure from the Exchequer in the previous financial year. They also include details of a number of Departmental funds/accounts and detailed statements of national debt and guaranteed borrowings, June (t).
6. *The Appropriation Accounts*, are the accounts prepared in each Department in respect of the monies voted by the Dail and administered by it in the previous year. The accounts when certified and reported on by the Comptroller and Auditor General are printed in a single volume and submitted to the Dail, by 31 October (t+1).
7. *Report of the Committee of Public Accounts*. When the Committee of Public Accounts concludes its

examination of the Appropriation Accounts for a particular year it presents its final report on them to the Dail, no fixed publication date.

Other documents

8. *Comprehensive Public Expenditure Programmes*, is a pilot publication which sets out public expenditure in programme form together with policy statements and description of activities. Data on outputs and performance indicators are also included. The booklet first appeared in 1983; was expanded in 1984; and in 1985 contained programme material for all public expenditure areas.
9. *Building on Reality 1985-1987*. This is the Government's three year economic plan. It sets out public expenditure policy and targets up to 1987, October 1984.
10. *White Paper on the Reform of the Public Service*, September 1985.
11. *An Outline of Irish Financial Procedures*, contains an outline of Government accounting terms and principles, 1982.

Note: All the above publications are obtainable from Stationery Office, Dublin.

Point of contact:

Central Section
Public Expenditure Division
Department of Finance
Government Buildings
Dublin 2

NOTE

1. The Budget, with capital 'B', refers mainly to the Government's proposals for taxation.

ITALY

Any changes which may have taken place in Italy since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION MAKING

1. Political and organisational structure of government

Italy is a unitary State. There are four layers of government: State or central level, regional level, provincial level, and municipalities. The provincial level is by far the smallest of the four in financial terms.

Today, Central government functions are organised mainly around 21 ministries and some agencies. Ministries have one Minister, and, in general, one (or more) Secretary of State. The head of a department is a political appointment, as opposed to the rest of the departmental personnel.

Parliament has two Chambers: the "Camera dei deputati" (Lower House) and the "Senato della Repubblica" (Senate). In both Chambers 10 political parties are represented and not one of them has an absolute majority. Therefore coalition cabinets are a common phenomenon. The current majority coalition is based on five political parties, supporting a 21 minister cabinet. In general, Ministers are members of Parliament. Direct elections for both Chambers, to be held regularly every 5 years, will be in 1988.

A coalition agreement is normally at the basis of every government, currently with a paragraph on the budgetary policy to be conducted.

2. Main budgetary organs

The central role in all budgetary matters is played by the Ministry of Treasury, that is separate from the Ministry of Finance. The Treasury is responsible for both the expenditure and revenue side of the budget. The Treasury is also responsible for the debt-servicing programme.

The responsibility for economic and fiscal policy making is shared with the Ministry of Finance and the Economic Planning Ministry: the first has the lead in fiscal revenue policies (taxes and other revenues), the second in macro-economic forecasting. The Economic

Planning Ministry provides estimates of the costs of new public investment projects to the budget.

Most functions of the budget office are performed by a department within the Treasury, the State's General Accounts Department (Ragioneria Generale dello Stato - RGS). In addition to monitoring and controlling central government payments and receipts, RGS co-ordinates the medium-term planning process and the process of preparation of the budget. The central part of RGS is divided into seven Inspectorates, each of them dealing with a sectoral or regional spending area. Within each Budget Inspectorate, a central division co-ordinates the preparation of the budget.

RGS also operates decentralised accounting units in each ministry, region and province as internal auditing. Size of the staff is 5 200 units, 540 of which are represented by managing staff.

3. Role of the Prime Minister and Cabinet

The Prime Minister has no special prerogatives in budgeting, apart from his political role as leader of Cabinet. However, he heads the Economic Planning Committee (CIPE). The Committee is composed of 13 ministers representing the main spending and financial departments. The main budgetary guidelines concerning, for example, stabilization of fiscal pressure (i.e. government revenues), the reduction of current expenditure and the control of public debt, proposed by the Treasury and Economic Planning Ministers are examined and approved by this Committee before submitted to Cabinet.

The Cabinet agrees on the budget before it is submitted to Parliament following the same procedure as with any other draft bill.

4. Role of Parliament

Every year, the budget documents are submitted by the Government, either first to the Camera dei Deputati and subsequently to the Senato della Repubblica, or vice versa.

In both Chambers, a central role is played by the Budget Committee (in the Lower House) and the Treasury and Finance Committee (in the Senate). Both Committees prepare the discussion of laws in respective Chambers. Their function is also to guarantee the financial coverage of all new expenditure laws.

The two Chambers have an equally important position regarding all sorts of laws, including budgetary laws. When Chambers disagree with each other the law is examined again (and modified) following the same procedure.

The Italian budget system knows three important concepts: the Financial Act, the annual budget (or Appropriation Act) and the multi-year budget.

The Financial Bill, introduced by the budget reform 1978, is enacted by Parliament prior to the Appropriation Bill. The Financial Bill sets a framework for parliamentary debate and decision-making on the Appropriation Bill.

The Financial Act stipulates:

- i) A ceiling on Treasury borrowing requirement in commitment-terms;

Table 1
General Government Figures
In % GDP, 1984 (1)(2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government			O.Curr.T.(5) 11.0	Soc.Sec.T.: Curr.(5) 6.3	Cons. 10.4 Int.P.(3) 9.1 Subs. 1.7 Soc.Sec.T.(4) 3.0 O.Curr.T. 0.5 Investm. 1.5 Cap.T.(3) 2.4 28.3	Cons. 10.4 Int.P. 9.1 Subs. 1.7 Soc.Sec.T.(4) 9.3 O.Curr.T. 11.5 Investm. 1.5 Cap.T. 2.4 45.7
Local Authorities		O.Curr.T.(5) 0.1			Cons. 8.5 Int.P.(3) 0.8 Subs. 1.0 Soc.Sec.T.(4) 2.3 O.Curr.T. 0.3 Investm. 2.4 Cap.T.(3) 1.1 16.4	Cons. 8.5 Int.P. 0.8 Subs. 1.0 Soc.Sec.T.(4) 2.3 O.Curr.T. 0.4 Investm. 2.4 Cap.T. 1.1 16.5
Social Security Funds		O.Curr.T.(5) 5.4	O.Curr.T.(5) 0.1		Cons. 0.5 Int.P.(3) 0.1 Soc.Sec.T.(4) 14.1 Investm. 0.2 15.0	Cons. 0.5 Int.P. 0.1 Soc.Sec.T.(4) 14.1 O.Curr.T. 5.5 Investm. 0.2 20.4
Private Sector		Tax. 24.8 (Ind.Tax.) (10.6) S.S.C. 0.3 O.Rec.(3) 3.0 28.1	Tax. 1.5 (Ind.Tax.) (0.6) O.Rec.(3) 2.7 4.2	S.S.C. 13.6 O.Rec.(3) 0.4 14.1	General Government (3) (Consolidated)	
Total Revenues		Tax. 24.8 S.S.C. 0.3 O.Rec. 8.4 33.7	Tax. 1.5 O.Rec. 13.8 15.3	S.S.C. 13.6 O.Rec. 6.7 20.4	Cons. 19.4 (Wages) (..) Int.P.(3) 9.6 Subs. 2.7 Soc.Sec.T.(4) 19.4 O.Curr.T. 0.8 Investm. 4.1 Cap.T.(3) 1.9 57.9	Tax. 26.3 S.S.C. 14.0 O.Rec.(3) 4.3 Cons.F.C. 0.3 44.9 Net Lending -13.0
Memorandum Items:						
(Cons.F.C.)		(0.1)	(0.1)			
(Net Lending)		(-11.9)	(-1.1)	(0)		

1. For explanation and comments, see the introduction to Part II and the remainder of this section.
2. Items do not necessarily add to totals due to rounding off.
3. Due to consolidation problems, subsectors do not add to General Government revenue and expenditure.
4. This item includes unfunded employee welfare benefits.
5. Transfers to other government subsectors include current transfers n.e.c. to other resident sectors.

Source: OECD, Annual National Accounts.

- ii) Special reserves for new legislation likely to be passed during the financial year. All new legislation must be enclosed in the Financial Bill. These reserves amount to 5-6 per cent of global expenditure on average;
- iii) Adjustments to multi-year expenditure. These adjustments are made in particular by deferring or advancing multi-year expenditure. Reference levels of multi-year expenditure are incorporated in an annex of the Finance Bill. When this Bill is approved, the (amended) reference levels are incorporated in the Appropriation Bill.

The Financial Act can change substantive legislation; this means that it is possible to modify the existing laws or to create others ex-novo. When passed, the content of the Finance Act is incorporated into the Appropriation

Bill by means of a "modifying note", submitted by government. This "modifying note" is a special amendment to the Appropriation Bill containing all the rules created and/or modified by the Financial Act.

Before appropriating funds, Parliament first decides the amount of total revenues and total expenditures. Annual budget funds are appropriated both in commitment and in cash terms. Parliament controls expenditure at the level of approximately 5 000 items.

All central government expenditure is appropriated annually. Both Chambers have the right to add to or modify proposed revenue and expenditure.

While enacting the Appropriation Bill, Parliament also approves the (amended) multi-year budget (for three years) in commitment terms: modification and approval do not relate to individual budget items but to economic and functional blocks of expenditure.

Table 2
General Government Figures
In % GDP, 1974 (1)(2)

Notes: see table 1.

From	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government		O.Curr.T. (5) 3.1	Soc.Sec.T.: Curr.(5) 1.9	Cons. 8.6 Int.P.(3) 2.2 Subs. 1.3 Soc.Sec.T.(4) 0.6 O.Curr.T. 0.6 Investm. 1.4 Cap.T.(3) 1.6 17.2	Cons. 8.6 Int.P. 2.2 Subs. 1.3 Soc.Sec.T.(4) 0.6 O.Curr.T. 3.7 Investm. 1.4 Cap.T. 1.6 22.3
Local Authorities	O.Curr.T. (5) 0.1			Cons. 5.5 Int.P.(3) 1.3 Subs. 0.3 Soc.Sec.T.(4) 0.5 O.Curr.T. 0.3 Investm. 1.5 Cap.T.(3) 0.2 9.7	Cons. 5.5 Int.P. 1.3 Subs. 0.3 Soc.Sec.T.(4) 0.5 O.Curr.T. 0.4 Investm. 1.5 Cap.T. 0.2 9.8
Social Security Funds	O.Curr.T. (5) 0.3	O.Curr.T. (5) 1.1		Cons. 1.0 Int.P.(3) 0.1 Soc.Sec.T.(4) 11.6 Investm. 0.1 Cap.T.(3) 0.1 13.0	Cons. 1.0 Int.P. 0.1 Soc.Sec.T.(4) 11.6 O.Curr.T. 1.4 Investm. 0.3 Cap.T. 0.1 14.4
Private Sector	Tax. 14.9 (Ind.Tax.) (9.5) S.S.C. 0.1 O.Rec.(3) 2.7 17.7	Tax. 1.0 (Ind.Tax.) (0.3) O.Rec.(3) 1.8 2.9	S.S.C. 11.6 O.Rec.(3) 0.5 12.1	General Government (3) (Consolidated)	
				Cons. 15.1 (Wages) (...) 3.1 Int.P.(3) 1.6 Subs. 0.9 Soc.Sec.T.(4) 10.7 O.Curr.T. 0.9 Investm. 3.1 Cap.T.(3) 0.9 38.4	Tax. 15.8 S.S.C. 11.7 O.Rec.(3) 3.6 Cons.F.C. 0.3 31.4
Total Revenues	Tax. 14.9 S.S.C. 0.1 O.Rec. 3.1 18.1	Tax. 1.0 G.nec. 6.1 7.1	S.S.C. 11.6 O.Rec. 2.4 14.0		Net Lending -7.0
Memorandum Items: (Cons.F.C.) (Net Lending)	(0.2) (-4.0)	(0.1) (-2.6)	(-0.4)		

Budgetary laws, like any other law, may be voted by "secret vote", at the request of a single member of Parliament. In this way, it is not clear, to other deputies and to the party, who votes in favour or against. The "secret vote" guarantees every deputy the opportunity to vote contrary to his party's rules.

Parliament has to pass Appropriation Bills before the start of the fiscal year; under extraordinary circumstances it can provisionally authorise by law the budget proposed by the Government for a maximum period of 4 months.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

General Government expenditure is among the highest in the OECD area, as was its growth in the period 1974-1984. Net borrowing remained high, for both general and central government.

The internal structure of the public sector can be commented as follows. Local authorities (regions, provinces and municipalities) are dependent on central government's transfers and therefore their spending possibilities are limited. Restrictions on capital market borrowing and on taxation capacities are other instruments that central government uses to control spending of local authorities. In general, the control on local authorities' activities is restricted to aspects of legitimacy; local authorities are free to spend funds in whatever direction they like. Local authorities generally provide local services. Local governments act as an agent of central government in providing some services, mainly in the health sector, law and order and matters of primary education.

Apart from central departments, central government is made up of several subsidised autonomous agencies, enterprises, funds, and so on. In general, central government establishes goals to be achieved, providing them means and leaving them the ways.

The social security and health system are mainly financed by contributions from employers and employees. Supplementary transfers are made by central government. The Cabinet proposes and the Parliament determines by law social security programmes, conditions of entitlement and social security contributions. The programmes are carried out by means of a special agency (National Social Security Institute - INPS).

Public enterprises, selling their goods and services at public utility prices, receive contributions and subsidies from central government to cover deficits. They can borrow funds to finance their investments, but in general, government authorisation is required.

For the period 1981-1984, the average breakdown expressed as a percentage of forecast budget expendi-

ture of central government and grouped by institutional purposes, was approximately as follows:

Table 3. Functional Classification of Central Government Expenditure
As percentage of total

General Government	2.6
National Defence	4.2
Justice	1.0
National Security	2.3
International Relations	2.2
Education and Culture	10.4
Various Housing Sector Schemes	0.8
Various Welfare Schemes	20.4
Transport and Communications	6.5
Various Measures of an Economic Nature	8.8
Measure in Support of Regional and Local Finances	13.8
Unallocated Costs (including interest payments on government debt)	19.5
Payment of Loans	7.5
Total	100.0

Source: General Report on Accounts (see section H).

C. STRATEGIC AIMS AND GLOBAL NORMS

The most important target is the Treasury Borrowing Requirement in nominal terms, which is to be stabilized from year to year. The Treasury Borrowing Requirement is defined to cover the so-called enlarged public sector, i.e. general government including autonomous and municipal institutions, governmental non-profit institutions, health service agencies and the national electricity corporation (ENEL). This concept of deficit, expressed in cash-terms, includes loans made by the government.

Current policies are aimed at reducing the State borrowing requirement to about 7 to 8 per cent of GDP by 1990. The latter target envisages reducing borrowing needs to almost zero excluding interest costs on accumulated debt. The State Borrowing Requirement represents the difference between the total amount of revenue and expenditure in commitment terms.

The following table indicates the performance of budgetary indicators:

Table 4. Fiscal indicators 1981-1986
As percentage of GDP

	1981	1982	1983	1984	1985	1986 (Estimate)
Treasury Borrowing Requirement	12.8	15.4	15.9	15	17.5	15.1

Source: Forecasting and Programming Report (see section H).

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year budgeting in fact started with the introduction of the Financial Act, which was itself one of the results of the budget reform (law) of 1978. It was foreseen that multi-year budgets would be prepared in two versions each year. The first version which is known as the "trend" version is a projection of revenues and expenditures under the current regulations.

This multi-year "trend" budget was to be supplemented by a "planning scenario" version consistent with economic policy guidelines. Mainly because of the lack of reliable programming techniques, this version is still to be implemented. Parliament approves the multi-year budgets, but approval does not mean authorisation to collect or disburse funds in this case. The multi-year budget "trend version" is a means to control new expenditure by the Treasury and by Parliament since it includes special reserves (global funds) for new legislation likely to be passed during the new fiscal year. The multi-year budget when approved defines the limits in

which new expenditure for the second and the third year of forecasting may be proposed and approved.

Multi-year budgets are based on commitments. They reflect proposed government policy with respect to the new budget and its multi-year consequences.

Multi-year budgets can cover a period of 3-5 years including the new budget-year. In general, a multi-year budget has been made to forecast three years. The "trend version", based on current legislation, is initially prepared by spending departments and reviewed by the Treasury.

They are updated once a year after the Financial Bill has been enacted. (See section A4).

Multi-year estimates are published once a year, showing a breakdown for expenditure according to institutional purposes and economic interventions. They are not updated during implementation of the budget.

2. Calendar of main points of decisionmaking and activities

The fiscal year (FY(t)) is the calendar year (t).

Months before start of FY(t)	Main events and activities
11 (February)	Treasury issues technical guidelines on the preparation of the budget.
9-8 (April-May)	Ministries submit their new budgets to the Treasury. Start of Treasury negotiations with each Ministry.
6 (July)	Treasury and Ministry of Economic Planning submit budgetary policy guidelines to the Economic Planning Committee (CIPE) and to the regions.
6-4 (July-September)	CIPE examines and approves budgetary guidelines, approves Overall Programming Report.
4 (September)	Cabinet agrees on budget and submits budget documents to Parliament, which has to enact the Financial Bill, the appropriation Bill and the multi-year budgets before start of fiscal year.
0 (1st January)	Start of fiscal year (t).

3. The annual budget cycle

In February/March, the Treasury issues a circular which sets out the methods and basic criteria on which to base the annual commitment and cash budgets and the multi year budgets.

The ministries send their budget bids to the Treasury in April/May and protracted consultations between the Treasury and departments follow. In general, budgets are based on current legislation and proposals for new policies which from a sectoral point of view are deemed necessary.

The first task of the Treasury is to evaluate the proposed budget as a whole and form a view of the guidelines necessary to make it consistent with the overall economic policy framework. A first budget forecast is submitted to the Ministry for Economic

Planning by 10th July and the proposal for main guidelines is then worked out jointly by this ministry and the Treasury.

The Treasury, in agreement with the Economic Planning Ministry, submits before the end of July the main guidelines for both annual and multi-year budgets to the Economic Planning Committee (CIPE). This committee examines and approves them before 15th September. It also approves the overall programming report, including the government's global budgetary strategy.

Before the end of July, the main guidelines are also presented to the regions and commented on by the Interregional Commission, a consultative body composed of the presidents of all the regions.

The budget is approved by Cabinet in September and presented to Parliament before 30th September.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

An annual document attached to the General Report on Accounts constitutes a detailed instrument specifically designed to assess the effects of public policies. This document, called "cost-benefit analysis", presents data on economic trends and administrative activity in the current year, and in particular the costs incurred and the results obtained by each service, programme and project as compared with the aims and overall thrust of the government's programme. This document is required to serve not only as a means of reasserting the essential character of the financial results of the year but, above all, to fulfill the more decisive task of verifying the effectiveness of the totality of State intervention. This procedure can represent a critical means by which cutback proposals for the new budget can be created.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of control

Once the Appropriation Act has been passed, any proposal to increase expenditure must, according to constitutional requirements, specify its source of finance, i.e. offsetting expenditure cuts or increased receipts. The same rule applies to reductions in revenues. The Treasury Borrowing Requirement is not allowed to increase during the implementation of the budget. The requirement to offset expenditure increases applies to every kind of expenditure; this constitutional requirement is always applied to both cash and commitments basis of expenditure.

Instruments for adjusting the budget approved by Parliament are the Implementation Act and the Budget Amendment Acts. The government is obliged to submit the Implementation Bill (before 30th June), which at least should include changes arising from the funds carried forward from the last financial year. This coincides with the preparation of the General Report on the Accounts. Under this act, moreover, other amendments to the budget can be submitted to take account of changing requirements.

The Budget Amendment Laws, which if any have to be submitted before 31st October, are optional in that the government is free to present them or not.

Parliament is informed about the development of the Treasury Borrowing Requirement and cash management trend every three months by means of a cash-statement report. As an instrument of cash management, public entities are required to deposit their available resources with the Treasury, even though resources come from central government. In so doing,

the Treasury's gross borrowing requirement, and related interest payments, can be reduced.

2. Managerial discretion

The different spending centres have responsibility for the economic and financial policy, the effectiveness and efficiency of their expenditure programmes.

Transfers between votes are never possible at managerial level. Unspent funds may be transferred to the next fiscal year, only if liabilities have been incurred. If, by the nature of the expenditure item, a process of cash payments has been set in train, and not yet finished, funds can also be transferred to the next fiscal year.

G. CURRENT REFORMS

The Government has presented to Parliament the so-called Goals Document as a new element in the budget cycle. Through the Goals Document, the main elements of the budgetary framework will have to be decided on before more detailed actions on the Finance Bill and Appropriations Bill take place.

The most important elements are the minimum increase of the amount of revenues, the maximum rate of growth for current and capital expenditure, respectively, and some specific rates of growth for detailed aspects such as line staff, current and capital grants.

H. FURTHER INFORMATION

Documents related to the annual budget

The fiscal year is the calendar year (t).

1. Appropriation Bill (*Disegno di legge di bilancio*), including the multi-year budget, September, year (t-1).
2. Appropriation Act (*Legge di bilancio*), usually published before 31 December, year (t-1).
3. Financial Bill (*Disegno di legge finanziaria*), containing information on the Treasury borrowing requirement, adjustments to multi-year budgets and reserve, September, year (t-1).
4. Financial Act (*Legge finanziaria*) usually published before 31 December, year (t-1).
5. Forecasting and Programming Report (*Relazione previsionale e programmatica*) is the overall programming report, containing economic forecasts, economic and fiscal goals etc. published by Treasury and Economic Planning Ministries, September, year (t-1).

6. General Report on the country's economic situation (*Relazione generale sulla situazione economica del paese*), presenting the previous year's performance of the principal sectors of the economy, in public finance and in the labour sector, published by Treasury and Economic Planning Ministries, March.
7. General government economic accounts (*Conto economico della Pubblica Amministrazione*), information on public finance in the previous year published by the Statistical Institute (ISTAT) and the Public Institute for short term Economic Research (ISCO), Vol. II - General Report on the country's economic situation (*Finanza Pubblica - Relazione Generale sulla Situazione Economica del Paese*), (See reference under 6) March, year (t+1).
8. Cash statement (*Relazione trimestrale di cassa*), quarterly report assessing Treasury borrowing

requirement and the results of cash management of each agency in central government, published by Treasury Ministry in February, May, August and November year (t).

9. General Report on Accounts, (*Rendiconto Generale dello Stato*), containing economic and financial results in commitment and cash-terms, published by Treasury Ministry, June, year (t+1).
10. Report on Cash Statement of the Public Sector (*Relazione sulla stima del fabbisogno di Cassa del Settore pubblico per l'anno*), provides forecast of cash requirements, January, year (t).

Point of contact

Treasury Ministry
The State's General Accounts Department and
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Via XX Settembre 97
00187 Rome

JAPAN

Any changes which may have taken place in Japan since 1st August 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

Japan is a unitary state. There are three layers of government: central government, regional governments, mainly "prefectures", and municipalities.

Central government functions are organised mainly among 12 ministries and several agencies. General government services are provided both centrally and regionally. Each of the ministries and some of the agencies have in general one minister, and one parliamentary vice-minister; the secretary-general of each department is a non-political appointment, as are the rest of the departmental personnel.

The Parliament (Diet) is in two Houses: the House of Representatives and the House of Councillors. In the House of Representatives 6 political parties are represented, and the Liberal Democratic Party (LDP) has a majority position. In general the elections for the House of Representatives are held every 4 years or in the case of dissolution. The last election was in July 1986, after which a new cabinet was formed.

2. Main budgetary organs

The Ministry of Finance (MF) has main responsibilities concerning both sides of the budget and budgetary policy in general. Within the MF, the Minister's Secretariat and 7 Bureaux are established.

The Budget Bureau of MF is in charge of budget formulation. In the Budget Bureau, the Director General coordinates the budget-preparation, being assisted by three Deputy Director Generals. Twelve Budget examiners are in charge of budgets of the respective Ministries and agencies. The Budget Bureau holds almost 350 personnel (all grades and supporting staff).

Tax revenues are dealt with by the Tax Bureau of the MF, which is in charge of the estimation of tax revenues, tax reform etc.

The Financial Bureau is in charge of the Fiscal Investment and Loan Programme (FILP, see Section B).

3. Role of Prime Minister and Cabinet

The Cabinet is empowered to prepare the budget and submit it to the Diet. The Minister of Finance has prime responsibility for the budget in the Cabinet.

At the beginning of a new budget cycle, the guideline for the estimate budget requests and the general principles of budget formulation, which are the bases of budget preparation, are decided by the Cabinet with the agreement of the Prime Minister. The Prime Minister is also involved, if the revival (or second round) negotiations between the MF and each Minister and Agency cannot be settled and final decision is to be made by him.

4. Role of Parliament

The deliberation in the Diet of the Budget Proposal begins in the House of Representatives. The Budget Committee of the House of Representatives conducts deliberation of the Budget, and after approval at its plenary session it is sent to the House of Councillors around early March.

In the House of Councillors, the Budget Committee conducts deliberations first, and then it entrusts consideration to the respective committees under their jurisdictions. The Budget comes into force following its approval in the plenary session of the House of Councillors. The Budget committees of both Houses are supported by the Budget Research Office, which provides information for the Diet's deliberation on the budget. Both Houses of the Diet can amend the budget and make additions to the expenditures proposed.

When the House of Councillors' decision runs contrary to that of the House of Representatives, a joint conference of the two Houses is held. Subsequently, should the two Houses lack a consensus, the decision of the House of Representatives becomes the decision of the Diet, thus recognising the House of Representatives' greater authority regarding the budget.

When the expenditure budget is approved by the Diet, votes are organised according to jurisdiction, organisation and items within a department. There are about 480 items in general account expenditure (FY 1986 budget).

All central government expenditure is appropriated annually except expenditures previously approved as continued expenses, designed to plan for construction,

production, and other projects which extend over several fiscal years before completion. Only in the case of continued expenses, the Diet approves multi-year figures.

If the Diet does not approve the budget before the start of the new budget year, there is a legal provision on the formulation of the provisional budget for a certain period of the new fiscal year.

Table 1
General Government Figures
In % GDP, 1984 (1)(2)(3)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government			O.Curr.T. 5.1 Cap.T.(4) 1.8 6.9	Soc.Sec.T.: Curr. 2.3	Cons. 2.4 Int.P. 3.5 Subs. 1.0 Soc.Sec.T. 0.7 O.Curr.T. 0.2 Investm. 0.8 Cap.T.(4) -0.2 O.G.Acc. 0.1 8.4	Cons. 2.4 Int.P. 3.5 Subs. 1.0 Soc.Sec.T. 3.0 O.Curr.T. 5.3 Investm. 0.8 Cap.T.(4) 1.6 O.G.Acc. 0.1 17.6
Local Authorities				Soc.Sec.T.: O.Curr.T. 0.2	Cons. 7.4 Int.P. 1.1 Subs. 0.3 Soc.Sec.T. 1.3 O.Curr.T. 0.2 Investm. 4.2 Cap.T.(4) 0.2 O.G.Acc. 1.3 16.1	Cons. 7.4 Int.P. 1.1 Subs. 0.3 Soc.Sec.T. 1.5 O.Curr.T. 0.2 Investm. 4.2 Cap.T.(4) 0.2 O.G.Acc. 1.3 16.3
Social Security Funds					Cons. 0.2 Soc.Sec.T. 9.3 Cap.T.(4) 0.1 O.G.Acc. 0.3 9.9	Cons. 0.2 Soc.Sec.T. 9.3 Cap.T.(4) 0.1 O.G.Acc. 0.3 9.9
Private Sector	Tax. 12.7 (Ind.Tax.) (3.6) O.Rec. 0.7 13.4	Tax. 7.4 (Ind.Tax.) (4.2) O.Rec. 0.4 7.7	S.S.C. 8.2 O.Rec. 1.6 9.9	General Government(3) (Consolidated)		
				Cons. 9.9 (Wages) (7.7) Int.P. 4.5 Subs. 1.3 Soc.Sec.T. 11.0 O.Curr.T. 0.5 Investm. 5.1 Cap.T.(4) 0 O.G.Acc. 0.8 33.1	Tax. 19.5 S.S.C. 8.1 O.Rec. 2.6 Cons.F.C. 0.7 31.0	
Total Revenues	Tax. 12.7 O.Rec. 0.8 13.4	Tax. 7.4 O.Rec. 7.3 14.6	S.S.C. 8.2 O.Rec. 4.1 12.4			Net Lending -2.1
Memorandum Items: (Cons.F.C.) (Net Lending)	(0.1) (-4.1)	(0.6) (-1.1)	(2.4)			

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- The data for government subsectors refer to fiscal years beginning 1st April. The sum of the subsectors does not add to total General Government for which data are reported on calendar-year basis.
- Capital transfers paid are reported net of capital transfers received.

Source: OECD, *Annual National Accounts*.

grants through the Special Account for Allotment of Local Allocation Tax and Transfer Taxes. Local governments can use these grants at their own discretion;

- Local Transfer Taxes are directly received by the Special Account for Allotment of Local Allocation Tax and Transfer Taxes. This part comprises a share of some minor taxes;
- Grants are provided by central government to promote specific projects or to carry out programmes on a nationwide basis.

When local authorities issue local government bonds, they have to have the approval of the Minister of Home Affairs.

There are two sorts of social security funds. Insurance funds managed by the central government are administered by the Special Accounts Budgets. Revenues include social premium contributions and transfers from the General Account Budget. Both revenues and expenditures must be approved by the Diet.

Insurance Funds managed by non-central government institutions (i.e. by the Association for Health Insurance or by Local Governments) are managed independently under the general supervision of competent ministers.

Budgets of the 12 government-affiliated agencies are to be submitted to the Diet for deliberation and vote. As for other major public corporations (58 corporations in FY 1986), their balance sheets are submitted to the Diet for reference during budget deliberation. Budgets, plans for projects and/or financial plans of the public corporations are to be approved by competent Ministers. Furthermore, in case of most of the corporations, competent Ministers should consult with the Minister of Finance when such approval is given.

At the same time, public corporations subsidised by the government and financed by the Fiscal Investment and Loan Program are controlled indirectly through budget examination for subsidies or programmes.

The Fiscal Investment and Loan Program (FILP) covers about 75 per cent of all investments and loans financed through the government, using mainly the funds entrusted to the government. FILP is formulated every year. It is not a budget, but the Program is considered as important as the budget.

There are four sources of funds of FILP:

- i) Loan programme of the Trust Fund Bureau fund (which provide for about 75 per cent of the net total of resources),
- ii) Loan programme of the postal Life Insurance Fund,
- iii) Investment programme of the Industrial Investment Special Account and
- iv) Programme of government guaranteed bonds and borrowing of which the funds are used for public corporations and agencies, for example Japan National Railways.

The FILP is submitted to the Diet for its approval since the four above fund sources are part of the budget.

About 18 per cent of the gross total of funds is used to subscribe to Government Bonds. Institutions financed by FILP are certain special accounts of the Government, Local Governments and public institutions which are fully owned by the public sector. Seventy percent of the Funds of FILP are allocated to the areas of housing, water supply and sewers, welfare facilities, education and to the promotion of small and medium size enterprises, and agriculture, forestry and fishery. The remainder is made up by road, transport and communication projects etc. Loans are made available only to those projects which can repay the obligations. However, there are some programmes or projects which have a high priority, but no scope for adequate revenues to fully recover their costs. Such programmes or projects could be financed either by Budget expenditure, or by the FILP loans combined with interest subsidies or combined with capital expenditure by the Budget.

Almost all funds made available by the FILP, are provided as loans, rather than investments, with the exception of the Industrial Investment Special Account.

The functional structure of government expenditure is shown below.

Table 3. Functional Structure of the General Account Budget
1986, initial
As a percentage of total

Social Security	18
Education and Science	9
National Debt Servicing Costs	21
Pensions and Others	3
Local Finance, (Local Allocation Tax Grants)	19
National Defence	6
Public Works, (General Public Works)	2
Economic Cooperation	1
Small Business	1
Energy Measures	1
Foodstuff Control	1
Miscellaneous	8
Reserves	1
Total	100

Source: *The Budget*, (see section H).

C. STRATEGIC AIMS AND GLOBAL NORMS

It is felt that the "general" (mostly discretionary) part of the Budget is only allowed to grow little given that both debt servicing costs and the local Allocation Tax Transfers will increase in the future and that this increase will swallow rising tax revenues. Additional pressure on Government expenditure will arise if the rapidly growing share of the elderly people in the total population towards the 21st century is also taken into account. Therefore, a fiscal reform has been formulated

to aim at reconstructing both the expenditure and revenue side of the budget

A tentative target has been set to end dependence of the fiscal structure on deficit financing bonds (i.e. to seek that current expenditure is covered by current revenue) and to reduce public debt (which includes both deficit finance and construction bonds) as a percentage of total general account budget expenditures by FY 1990.

The expenditure target is formulated to restrain the increase of total General Account expenditure below the

nominal growth rate of Gross National Product.

As to the total of both tax and social welfare burden (i.e. social security contributions and employer's burden for child allowances), a "desirable course" has been qualified by indicating that relative to National Income it should be kept much lower than in European countries due to possible adverse effects on investments and the supply of labour, and deterioration of productivity.

The following table indicates the performance of the above budget aggregates:

Table 4. Fiscal Indicators, 1980-1986

	1980	1981	1982	1983	1984	1985	1986 estimate
Deficit Financing Bonds (billion yen)	7.215	5.860	7.009	6.676	6.371	6.005	5.246
Deficit/Total Expenditure (%)	32.6	27.5	29.7	26.6	24.8	23.2	20.2
Public Debt/Total Expenditure (%)	162.4	175.3	204.2	216.6	236.4	253.6	264.8
Total General Account Expenditure (nominal growth rate %)	11.9	8.1	0.7	7.2	1.7	3.0	2.0

Source: *Explanation of the National Budget in Detail*, (see section II).

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

There is no formalized system of detailed medium-term expenditure projections in operation. Under specific technical assumptions, mechanical projection can

be produced in order to generate a Medium-Term Fiscal Projection.

2. Calendar of main points of decisionmaking and activities

The fiscal year (FY) begins on 1st April (year t) and ends on the following 31st March (year $t+1$) and is usually indicated as FY(t).

Months before start of FY(t)	Main events and activities
(Year $t-1$)	
12-11 (April-May)	Ministries (and Agencies) start preparation of reports on next year's budget
10-9 (June-July)	Cabinet discusses and agrees policy guidelines on budget requests, prepared by MF.
8 (August)	Ministries submit revenues, expenditure estimates and budget requests to MF. Ministries submit request of FILP funds.
7-4 (September-December)	MF holds budget hearings with Ministries and agencies about budget requests (including FILP funds). MF negotiations with Ministries take place hierarchically, from lower official levels to Ministerial level (if necessary)
4 (December)	Cabinet decides on budget estimates (including FILP programme), taking also into account the macro-economic results for the new fiscal year.
(Year t)	
3 (Late January)	Cabinet submits budget documents to the Diet. MF delivers two budget speeches to the two Houses.
1-0 (March-April)	Diet debates and approves the budget.
0 (1 April)	Start of fiscal year (t)

3. The annual budget cycle

Each Ministry and Agency begins estimating around April or May of each year its revenue and expenditure for the following fiscal year budget. They must prepare reports on expected revenue, required expenditures and other necessary matters under their jurisdiction and send them to the Minister of Finance not later than 31st August.

In June or July the guideline for the estimate budget requests proposed by MF is discussed and decided by the Cabinet. It contains instructions which each Ministry and Agency has to follow as it makes its calculations.

According to the Cabinet agreement on the guideline for the estimate budget requests for Fiscal 1986, this guideline included a 10 per cent reduction for current expenditure and a 5 per cent reduction on capital expenditure, measured against the nominal expenditure level according to the previous budget. Excluding national debt service costs and Local Allocation Tax Grants, the guideline only applies to about 33 per cent of total general account expenditures, also taking into account the obligatory character of several programmes.

In preparing their budget, each ministry decides the requests after hearing the opinion of the Policy Affairs Research Council consisting of members of Diet of the ruling Liberal Democratic Party in late August.

The Draft Budget of MF for departmental budgets include unallotted financial resources for the so-called revival negotiations – meaning that new negotiations take place at a higher level of hierarchy – amounting to 0.3 per cent of total expenditure in fiscal 1986. (The guideline for estimate budget requests does not contain unallotted financial resources for the revival negotiations.)

After the process of examinations which include hearings and reviews by MF from September to early December, MF prepares the Draft Budget and submits it to Ministries and Agencies in late December. After the notification of the Draft Budget of MF to Ministries and Agencies, the "revival negotiations" between MF and each Ministry and Agency take place. For nearly a week financial decisionmaking takes place through negotiations at three official levels ending up at ministerial level.

The Budget Draft of MF includes unallotted financial resources which are distributed to specific programmes in the course of the revival negotiations so that the total amount of the expenditure in the Budget Draft of the MF does not change after the revival negotiations.

When they do not come to a settlement, negotiations are to be run by the three major executives of the ruling Liberal Democratic Party (LDP): Secretary-General, Chairman of the Policy Affairs Research Council, and Chairman of the Executive Council. And then the final decision is to be made by the Prime Minister if necessary.

At the end of December, the Economic Planning Agency prepares the "Outlook and Basic Policy on the National Economy" for the following fiscal year through consultation with relevant Ministries including the MF and it is to be agreed by the Cabinet. At nearly the same time, "General Principles of Budget Compilation" are decided by the Cabinet as well. Finally, the Government approves the budget for submission to the Diet.

Usually the deliberation process of both Houses ends in early April.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

Efficiency or effectiveness reviews of expenditures are secured mainly by examination in the course of budget formulation. Departments are rather systematically urged to review their current activities, mainly through three mechanisms:

- Scrap and build: Under the principle of 'scrap and build', a new organisation or programme is 'built' only when an existing organisation or programme that has become out of line with the need of the times, is 'scrapped'. It is considered that this principle has contributed to the restraining of the expansion of public administrative organisation and to the promotion of the reassessment of existing programmes;
- Guideline for the estimate budget request: The guideline, which sets the limit of budget requests before the submission of these requests to MF, was launched in the fiscal 1961 budget formulation. The guideline has become stricter step by step and now implies a 10 per cent reduction on current expenditure and a 5 per cent reduction of capital expenditure (see Section D3);
- Sunset: A new policy was adopted in FY 1980 which requires that for every new subsidy programme, a termination period of not more than five years should be set as a rule; and when the termination date arrives, the programme should be placed under strict 'sunset' review.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

Immediately after approval by the Diet, the budget items are divided into smaller objects, viz. line items. The head of each Ministry and Agency must formulate plans for incurring liabilities (contracts and other activities that lead to government expenditures) based

on the allotted budget for public projects and other specified expenses, and must get approval of the Minister of Finance. Besides, based on the allotted budget, the head of each Ministry and Agency must draw up (cash) payment plans which make clear the required expenditures for each disbursing officer in every quarter of the year, and must get approval of the Minister of Finance.

The Cabinet informs the Diet about the implementation of the budget and the situation of the Treasury every quarter (See Section H, documents no. 13 and 14).

2. Managerial Discretion

Spending managers cannot transfer funds from one line item to another within an item, unless with the approval of MF. Balances cannot be transferred from one vote to another by spending managers without parliamentary approval.

There are four situations in which unspent appropriations can be carried forward to the following fiscal year:

1. Expenses previously approved can be carried over to the following fiscal year (carried over expenses);
2. Though liabilities have already been incurred in the current fiscal year, cash payments have not been (fully) realised due to unforeseen circumstances;
3. Yearly expenditures are approved as continued expenses (see Section A4);
4. On the specific provisions of the law of special accounts, (for example, the Foreign Exchange Fund Special Account).

In cases (1) to (3) approval of MF is required. In case (4), no such approval is required and the competent minister can carry forward by notifying the MF and the Board of Audit.

G. CURRENT REFORMS

At present, no major reforms in the Japanese budget system are being prepared.

H. FURTHER INFORMATION

Documents related to annual budget

The Fiscal Year (FY)(t) begins on 1st April (year t) and ends on the following 31st March (year t+1).

1. The Budget in Brief, (*Yosan-no-Hanashi*), English translation available, June/July, year (t).
2. The Budget, (*Yosansho*), Appropriation Bill, presented to the Diet, February of year (t).
3. Explanation of the Budget, (*Yosan-no-setsumei*), presented to the Diet, February, year (t).
4. Explanation of the National Budget in Detail, (*Kuni-no-yosan*), commentary on the current year's budget, November/December year (t).
5. The Settlement, (*Kessansho*), presented to the Diet, January/February, year (t+1).
6. References for the Budget Specified by Article 28 of the Finance Law, (*Zaiseihou-dai-nijuu-hachijou-ni-yoru-yosansankou-shou*), Reference materials annexed to the Budget, February, year (t).
7. Public Finance of Japan in Charts, (*Zuetsu-nihon-no-Zaisei*), describes plans, explanation of the current budget, budget system, fiscal policies etc., June, year (t).
8. Budgetary Statistics, (*Zaisei-Tokkei*), containing historical data, September/October, year (t).
9. An Outline of Japanese Tax, English translation available, October/November year (t).
10. Monthly Finance Review, contains information on current economic, budgetary and financial situation, English translation available.
11. Outlook and Basic Policy on the National Economy, English translation is usually published in Monthly Finance Review of January.
12. General Principles of Budget Compilation, (*Yosan Hensei Houshin*), English translation available, usually published in Monthly Finance Review of January.

Other documents

13. The Situation of Appropriation (*Yosan shiyo no Jyokyo*) about the implementation of the budget, presented to the Diet quarterly. The contents of this document are published in the Official Gazette.
14. The Situation of Treasury (*Kokko no Jyokyo*), presented to the Diet quarterly. The contents of this document are published in the Official Gazette.

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NETHERLANDS

Any changes which may have taken place in the Netherlands since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION-MAKING

1. Political and organisational structure of government

The Netherlands is a unitary State. There are three layers of government: state or central level, provincial level and municipalities, with the provincial level by far the smallest of the three in financial terms (see Section B for more information).

Central government functions are organised mainly around 13 ministries and several agencies. General government services are mainly provided centrally, rather than decentralised. Ministries have in general one Minister, and a secretary of State; the secretary-general of each department is a non-political appointment, as are the rest of the departmental personnel.

Parliament has two Chambers, the Second Chamber and the First Chamber (or Senate). In the Second Chamber some 15 political parties are represented, not one of them having a majority position. Therefore coalition cabinets are a common phenomenon. The current (majority) coalition is based on two political parties, supporting a 14 minister Cabinet. Ministers cannot be a member of Parliament at the same time. Direct elections for the Second Chamber, to be held regularly every 4 years, will be in May 1986, after which a new coalition will be formed. A so called coalition-agreement – covering all 4 years the government is supposed to remain in office – is normally at the basis of a (new) government, currently with a quite extended and detailed paragraph on the budgetary policy to be conducted.

2. Main budgetary organs

The central role in all budgetary matters is played by the Ministry of Finance (MF). MF deals with the expenditure and revenue side of the budget (i.e. taxation) as well as with general financial economic policy, the latter responsibility shared with amongst others the Ministry of Economic Affairs. MF is, except for his own ministry's budget, responsible for the debt-servicing programme.

Within the MF budgetary activities are co-ordinated by the Directorate General of the Budget, which has prime responsibility in controlling the expenditure side of the budget and non-tax revenues. The Directorate General of the Budget, employing almost 300 (all grades and supporting staff), comprises 3 Directorates and the Central Auditing Service. One directorate, the Inspectorate of State Finances is built up of 16 sections, most of which deal with one of the sectoral spending areas (mainly departments). Another directorate deals with finances of (lower) public bodies. Remaining budgetary activities (in particular "horizontal" ones) take place within the Directorate of Budgetary Affairs; e.g. the Budgetary Policy and Financial Management Division coordinates the preparation and implementation of the budget.

3. Role of Prime Minister and Cabinet

The Cabinet plays a very important role in the budget process. The total extent and allocation of cutbacks in the budget, for example, is discussed upon and decided upon by the Cabinet, on the basis of proposals that are put forward by the Minister of Finance. A Cabinet sub-council chaired by the Prime Minister can precede full cabinet discussions and decisionmaking. Usually the MF and the Ministers of Economics Affairs, of Social Affairs and of the Interior participate.

It should be mentioned that the Prime Minister and the other Ministers have agreed upon the coalition agreement; Ministers have thus accepted the main lines of medium term budgetary and economic policy (including budget cutbacks) to be conducted in the four year period the Cabinet will be in office. Of course, the character of coalition agreements is necessarily a global one, because not all details can be decided four years in advance. Therefore the support of the Prime Minister is still important, in the confrontation between MF and his spending colleagues.

4. Role of Parliament

Usually the budget documents submitted by the government are examined by a committee of the Second Chamber which is in charge of the policy area of the

budget chapter (e.g. Ministry) under discussion. In actual fact, this committee prepares the discussion in the Second Chamber.

Annual appropriation of all central government expenditure by Parliament is required including entitlements authorised under separate legislation. Parliament does not approve multi-year estimates. If Parliament has not passed the Appropriation Bill at the beginning of the new fiscal year, departments may spend up to 4/12th of the amount appropriated in the previous year pending parliamentary approval for the current year's estimates. Appropriation of expenditure takes place by budget chapter (in general covering a spending minis-

try's area), comprising a great number of detailed sections (articles) ranging from 10 to some 350 per budget chapter. In total, Parliament controls at the level of about 2000 votes. The Second Chamber can change budget figures by means of amendments, usually at detailed section level. The First Chamber lacks the right to amend the budget. Motions – intentions of will – do not necessarily have to be carried out by Cabinet. Motions usually deal with a larger policy area, as opposed to amendments that relate to a particular section or item of the budget. Whenever Parliament has enacted the budget, it can only be changed by supplementary budgets.

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government						
			O.Curr.T. 14.8	Soc.Sec.T.: Curr. 0.6	Cons. 7.7 Int.P. 4.5 Subs. 0.9 Soc.Sec.T. 1.3 O.Curr.T. 2.3 Investm. 0.8 Cap.T. 2.5 20.0	Cons. 7.7 Int.P. 4.5 Subs. 0.9 Soc.Sec.T. 2.0 O.Curr.T. 17.1 Investm. 0.8 Cap.T. 3.4 36.4
			Cap.T. 0.9 15.7	Cap. 0.1 0.7		
Local Authorities						
					Cons. 8.3 Int.P. 3.0 Subs. 0.9 Soc.Sec.T. 5.2 O.Curr.T. 1.0 Investm. 2.1 Cap.T. 0.4 20.8	Cons. 8.3 Int.P. 3.0 Subs. 0.9 Soc.Sec.T. 5.2 O.Curr.T. 1.0 Investm. 2.1 Cap.T. 0.4 20.8
Social Security Funds						
					Cons. 0.8 Soc.Sec.T. 20.6 21.4	Cons. 0.8 Soc.Sec.T. 20.6 21.4
Private Sector						
		Tax. 22.9 (Ind.Tax.) (10.3) O.Rec. 7.5 30.4	Tax. 1.0 (Ind.Tax.) (0.7) O.Rec. 2.7 3.7	S.S.C. 21.0 O.Rec. 0.2 21.2	General Government (Consolidated)	
					Cons. 16.8 (Wages) (11.7) Int.P. 7.6 Subs. 1.8 Soc.Sec.T. 27.0 O.Curr.T. 3.2 Investm. 2.9 Cap.T. 2.9 52.2	Tax. 23.9 S.S.C. 21.0 O.Rec. 10.4 Cons.F.C. 0.7 55.9
Total Revenues		Tax. 22.9 O.Rec. 7.5 30.4	Tax. 1.0 O.Rec. 18.4 19.4	S.S.C. 21.0 O.Rec. 0.9 21.8		Net Lending -6.3
Memorandum Items:						
(Cons.F.C.)		(0.2)	(0.5)			
(Net Lending)		(-5.8)	(-0.9)	(0.4)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.

Source: OECD, Annual National Accounts.

Table 2
General Government Figures
In % GDP, 1974 (1)(2)

Notes: see table 1.

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 7.3 Int. P. 1.2 Subs. 0.7 Soc. Sec. T. 0.7 O. Curr. T. 1.9 Investm. 1.1 Cap. T. 0.9 13.8	Cons. 7.3 Int. P. 1.2 Subs. 0.7 Soc. Sec. T. 1.7 O. Curr. T. 13.1 Investm. 1.1 Cap. T. 1.6 26.7
			O. Curr. T. 11.2 Cap. T. 0.7 11.9	Soc. Sec. T.: Curr. 0.9 Cap. 0.1 1.0		
Local Authorities					Cons. 8.4 Int. P. 2.4 Subs. 0.3 Soc. Sec. T. 2.2 O. Curr. T. 1.0 Investm. 2.6 Cap. T. 0.2 17.1	Cons. 8.4 Int. P. 2.4 Subs. 0.3 Soc. Sec. T. 2.2 O. Curr. T. 1.0 Investm. 2.6 Cap. T. 0.3 17.1
		Cap. T. 0.1				
Social Security Funds					Cons. 0.6 Soc. Sec. T. 16.7 Cap. T. 0.2 17.4	Cons. 0.6 Soc. Sec. T. 16.7 Cap. T. 0.2 17.4
Private Sector	Tax. 24.6 (Ind. Tax.) (9.8) O. Rec. 2.8 27.4	Tax. 0.6 (Ind. Tax.) (0.5) O. Rec. 2.0 2.7	S. S. C. 17.0 O. Rec. 0.3 17.3	General Government (Consolidated)		
				Cons. 16.2 (Wages) (12.4) Int. P. 3.6 Subs. 1.0 Soc. Sec. T. 19.6 O. Curr. T. 2.9 Investm. 3.7 Cap. T. 1.3 48.3	Tax. 25.2 S. S. C. 17.0 O. Rec. 5.1 Cons. F. C. 0.7 48.0	
Total Revenues	Tax. 24.6 O. Rec. 2.9 27.5	Tax. 0.6 O. Rec. 13.9 14.5	S. S. C. 17.0 O. Rec. 18.3 18.3			
Memorandum Items:						
(Cons. F. C.)	(0.2)	(0.5)				
(Net Lending)	(1.0)	(-2.1)	(0.9)			Net Lending -0.2

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Comparing to other countries, the public sector is among the largest in OECD countries, due to relatively high social security outlays (almost half of public expenditure). Central Government's budget deficit has increased considerably since 1974, as has general government net borrowing.

The internal structure of the public sector can be commented upon as follows. Local authorities (provinces and municipalities) are limited in their spending (one third of total public expenditure) by means of regulation and by central government supervision to a great extent. Restrictions on capital market borrowing and on taxation capacities, and block and specific purpose grants are all instruments that central government uses to control spending of local authorities.

Except for providing local services, lower tiers act as an agent of central government, mainly in the housing sector, the (on-budget) social security provisions, in law and order affairs and matters of education.

Social security is only to a minor extent on-budget. Social insurance funds take care of the larger part, financing their expenditure (some 30 per cent of total public expenditure) by levying non-tax, or social-premium, contributions. Central government controls total social security spending to a large extent, determining the social premium rates, the nominal size of the social benefits and the conditions of entitlement.

The few state enterprises are controlled by central government, but their economic importance and budgetary effects (except for the post, telephone and telegraph enterprise) are usually small. In general public ownership of enterprises is limited outside the transport and natural gas sectors and will be even more restricted by sales of shares.

Table 3. Functional Classification of Central Government Outlays (1986)

As percentage of total	
(General) Administration	2.9
Defence	7.7
Foreign Relations (excluding Development Co-operation)	3.0
Development Co-operation	2.5
Justice and Police	3.1
Transport and Public works	6.4
Trade and Industry	5.2
Agriculture and Fisheries	1.2
Education and Science	15.1
Cultural Affairs and Recreation	1.6
Social Services	16.3
Health and Environmental Protection	0.9
Housing	8.2
Central Government Debt Servicing	18.1
Block Grants to Local Authorities	7.2
Not classified	0.6
Total	100.0

Source: Budget Memorandum, 1986 (see section H)

C. STRATEGIC AIMS AND GLOBAL NORMS

Budgetary targets are identified in the coalition agreement (constituted in the fall of 1982). They relate to both the budget deficit and the larger part of revenues. There is no explicit expenditure target.

Budgetary targets are usually expressed as percentage of net national income (NNI). The definition of the budget deficit differs from net borrowing in that it includes net credit accommodation and some off-budget items concerning loan guarantees in the housing sector and in the area of development co-operation (the loan guarantees currently included in the definition of the budget deficit are less than 1 per cent of NNI). The budget deficit excludes however the deficit (or surplus) of social security funds. Separate guidelines have been set, controlling the budget balance of social security funds. The so called collective burden is defined to cover tax and social premium payments and some non-tax revenues, mainly non-tax, non-export natural gas revenues.

For the last year the current Cabinet is in office (1986), the coalition agreement sets the norm for the budget deficit at 7 to 7½ per cent of NNI. This is to be seen as a step towards a lower deficit target on the longer term.

As to the collective burden, in 1986 this target should be maximally at 1982 level (53 per cent NNI); it is expected to be some 2 percentage points lower.

The following table indicates realisation of target variables.

Table 4. Fiscal Indicators, 1980-1986
As percentage of NNI

	1980	1981	1982	1983	1984	1985	1986 (estimate)
Budget deficit	7.7	9.2	10.0	10.7	9.3	7.3	7.8
Collective burden	52.7	52.8	53.7	55.5	54.4	53.6	51.8

Source: Budget Memorandum, 1986; Report on the Provisional Results of the Budget, 1986 (see section H)

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year estimates (MYE) for control-purposes are registered for both expenditure and non-tax revenues of central government. There is no link to a medium-term fiscal plan; MYE serve as a means of control for MF, rather than as proclaimed resources for the spending ministries. They reflect (expenditure) projections according to policies that have been agreed on by cabinet (which might include a future change in policy).

MYE, linked to the current year (t-1), cover the budget year (t) and four future years.

MY expenditure estimates comprise, among other central government expenditure, interest payments, unemployment benefits and grants. A provision is made for the costs of repricing estimates according to the forecasted price and pay level of the budget year. MYE therefore remain on constant price and wage basis. The above mentioned estimates, sensitive to macro-economic development, are based on technical assumptions as far as future years are concerned. They are not based on macro-economic forecasting results.

MYE are built up from the level of votes (articles), or sometimes an even more disaggregate level. In fact MYE are rolled forward in an almost continuous process: each change in (multi-year) budgetary developments has to be checked by the MF and after agreement by MF will result in a change of the budget/multi-year estimates. Usually, changes refer to estimate failures and are therefore said to be "exogenous", i.e. not the result of new policy initiatives (though the latter occur as well from time to time) The new final year is constructed bottom-up by Ministries.

MYE are published once a year, in an annex of the Budget Memorandum. The estimates relate however to a much more aggregate level; usually only some 5 so-called homogenous groups of detailed sections are presented per budget chapter. The Spring Memorandum (see section F) includes all (and only) changes in the previous Budget Memorandum's MYE. Their presentation is not on the (legal) detailed section level, but in a more policy-oriented grouping of sections.

2. Calendar of main points of decisionmaking and activities.

The fiscal year (FY(t)) is the calendar year (year t).

Months before start of FY(t)	Main events and activities
(Year t-2)	
13-11 (December-February)	MF – Updating MYE – Digesting results from reconsiderations round year (t-2) – Selecting cut-back proposals – Preparations for framework letter (budget targets, total amount of cutbacks)
(Year t-1)	
11-10 (February-March)	Cabinet decides on total and allocation of budget cutbacks and whether or not room available for new policy initiatives (based on "Framework letter" of MF)
10-9 (March-15 April)	Ministries prepare draft budgets to be submitted to MF before 15 April.
9-7 (April-June)	MF discussions with each Ministry on all levels of officials and if necessary on Ministerial level.
7-6 (end June-July)	Cabinet decides on expenditure side based on macro-economic forecast and "unsolved issues" letter of MF (comprising if necessary an up-date of MY estimates)
5 (August)	Cabinet decides on remaining issues, e.g. social premium rates, tax measures, effects on distribution of purchasing power, based on "August letter" of MF
4 (3rd Tuesday September)	Submission of budget and related documents
3 (October)	Second Chamber discussion upon the general political and financial economic policy lines.
2 (November-February)	Both Chambers of Parliament discuss and decide upon each "budget chapter".
(Year t)	
0 (January 1st)	Start of fiscal year (t)

3. The annual budget cycle

The preparation of the budget starts in January-February year (t-1). The Minister of Finance submits a letter to the Council of Ministers, putting forward proposals concerning the allocation of resources to the various parts of the public sector. These proposals are usually based upon the expected medium-term development of the economy and upon the base-line (i.e. unchanged policy) multi-year expenditure estimates and some projection of revenues. For several years this allocation has involved expenditure reductions: the total extent of cutbacks and their allocation within the public sector are now essential parts of the above-mentioned letter. Not only the allocation, but also specific measures to achieve the budget cut-backs, are part of the letter. This letter is discussed and decisions taken by Cabinet in February-March.

In the next three or four months detailed budgets take shape; departments are free to curtail other programmes or outlays than those proposed by the Minister of Finance provided the cutbacks sum up to the same amount.

In May-June first drafts of the budgets are discussed by officials of senior rank of the spending departments and the director-general of the budget; if necessary, bilateral talks take place at ministerial level.

The Council of Ministers makes a final decision in July about the expenditure side of the budget.

In July (and if necessary in August) decisionmaking takes place about a range of other measures and issues,

like social premium rates, additional tax measures, etc., also given the other non-budgetary goals of government policy (for example, income policy considerations).

The third Tuesday of September Cabinet submits to Parliament the draft-budgets of the spending departments and the budget memorandum, in which the financial-economic and budgetary policy for the budget year is set out.

In October Parliament discusses the general political and financial policy lines the Cabinet set out. During the next three or four months all budgets are discussed and decided upon, turning them into annual appropriation acts. Parliament has the right to amend the budget (see A4).

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

The main instrument of policy review is the so-called Reconsiderations Procedure which was introduced in its present form in 1981.

This procedure aims at fundamentally reviewing existing policy areas within the public sector so as to develop policy alternatives that can facilitate the process of curtailing public expenditure. Only alternatives costing the same or less can be considered, with a mandatory 20 per cent funding level reduction included as one option.

Subjects for Reconsiderations are decided by the Council of Ministers. In earlier years, all government departments had to participate; however, this was relaxed as more flexibility was sought in the reconsideration procedure.

As of 1983 the Reconsiderations have been incorporated into the budget cycle (though it is possible to start the procedure separately). As budget preparation in the Netherlands starts usually in February (see Section D), each round of Reconsiderations is now to be completed by 1st November.

In the next three months the results can be brought together for a first (political) assessment prior to the actual budget preparation. The Minister of Finance thus possesses a first assessment of the political implications when preparing his budget-proposals for the new fiscal year (to be included in the "Framework letter").

Since mid-1985, some additional procedural modifications were approved by the cabinet. From now on it will be possible to start reconsideration reviews at any time of the year. This possibility increases the flexibility of the procedure without impairing its efficacy. Another modification is that political decision-making about completed studies becomes somewhat more flexible as well: both the responsible Minister(s) and the Minister of Finance can take the initiative and decisions need not be submitted to full Cabinet if no general cabinet policy is involved and provided the Ministers concerned have reached agreement.

All reports are made public by submission to Parliament. In addition, a summary report is published for each round of Reconsiderations, which also serves as a basis for the above-mentioned political assessment of results. Decisions made in the process of budget preparation on the basis of Reconsiderations reports are described in the budget-proposals of the different departments, and are summarised in the Budget Memorandum.

The whole procedure is guided by a small, Ministerial Commission, consisting of the Prime Minister, the Vice Prime Minister(s) and MF. Advice and administrative support is provided by MF.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

The general treatment of changes in the budget is dealt with in the so-called Rules of Stringent Budget Policy. These Rules constitute procedures regarding what to do in case of set-backs and windfalls both of expenditures and non-tax revenues. The rules governing compensation for items are formulated in such a way that normally speaking any excess in expenditure is compensated for by corresponding reductions in expenditure. Attention is also given to the question of whether

overruns of specific departmental items should be compensated for by that department, or by all departments.

Another instrument of control is that cash limits can be imposed on departmental spending totals. The decision to use this instrument is usually made in the Spring Memorandum. Cash limits have been imposed for some years. The instrument of cash limits tightens up the rules of Stringent Budget Policy. Both cash limits and Rules can only be implemented with respect to the current budget.

Finally it is possible to prescribe that prior approval by the Minister of Finance is required for some items and commitments, even though the necessary finance has been voted by Parliament.

During the implementation phase of the budget, Parliament is informed by Cabinet several times. After submission of the draft budget to Parliament in September, the Spring Memorandum is usually released in May or June. If economic developments turn out to be worse than projected and/or other budgetary setbacks occur, a so-called early Spring Memorandum might have to be released (usually in March), in which Cabinet may put forward additional budget cutbacks in the current budget and if necessary, in multi-year expenditures.

2. Managerial discretion

Efficient use of resources is the responsibility of the Minister of the spending Ministry, though the Minister of Finance bears a general responsibility.

A spending manager, in general, cannot transfer unspent funds from one section (article) to another: such transfers require Parliamentary approval. However, under very limited and explicit conditions, a small amount may be transferred.

Under certain conditions, it is allowed to transfer appropriated money to the next fiscal year. However, this is restricted by the Minister of Finance so as not to undermine budgetary discipline and control. First, not all balances can be carried forward. Budget sections eligible for carry-forward are indicated as such in the Appropriation Act. Each section concerned also contains a maximum amount that cannot be exceeded when carrying forward. Especially the spending department is to give evidence that corresponding commitments have been made in the originating budget year and that cash outlays will take place in the next budget year. The Cabinet plans to seek an appropriate way to abolish this carry-forward possibility.

G. CURRENT REFORMS

Putting more emphasis on commitments

Budgets based on cash-outlays only are not always easy to control. Therefore, the Cabinet suggests to

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indicate for all detailed budget sections the amount of commitments leading to cash outlays in later years. Moreover, departments will be required to register all commitments in relation to cash payments so that administration and the control can be further improved. Obviously, multi-year extrapolations which represent cash estimates should at least reflect commitments, made up to date. Since commitments usually generate rather complicated cash patterns, adequate and automated administrative registration has to be developed and further improved.

Self-management

Self-management of government agencies may be a satisfactory way to increase efficiency and effectivity, simultaneously reducing administrative burdens on central government offices. However, the degree of control may decrease. In order to get a clear picture of problems and possibilities in this area, some experiments were started recently.

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year (t) is the calendar year (t).

1. Appropriation Bills (*Begrotingswetten*), mainly concerning spending departments, 3rd Tuesday in September, year (t-1).

2. Budget Memorandum (*Miljoenennota*), summarises economic background to the Budget, describes the medium-term financial strategy, summarises the tax proposals and gives all the key figures for revenues, expenditure and the public sector borrowing requirement, 3rd Tuesday in September, year (t-1). English summary available.
3. Report on macro-economic forecast (*Macro-economische verkenningen*), 3rd Tuesday of September, year (t-1).
4. Spring Memorandum (*Voorjaarsnota*), report on the implementation of the budget, Spring, year (t).
5. Report on the provisional results of the budget (February Memorandum), (*Voorlopige Rekening*), (Februari-Nota), in February, year (t+1).

Other documents

6. 7th Report Budget-Margin Studygroup, (*7-de Rapport Studiegroep Begrotingsruimte*) on the controllability of public expenditure, 1983 English summary available.

Point of contact

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NORWAY

Any changes which may have taken place in Norway since 1st July 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION-MAKING

1. Political and organisational structure of government

Norway is a unitary state. There are three layers of government: the central government, counties and municipalities.

Central government currently consists of 17 ministries, each headed by a cabinet minister, central agencies and local state authorities. The 17 ministers, along with the Prime Minister, constitute the Cabinet. In addition to the cabinet minister, there are usually one to three political appointments in each ministry, including one or more Secretaries of State who are not a member of Cabinet, nor are they responsible to Parliament.

In general, Ministries are rather small, on average, there are about 160 employees in each ministry. Other state agencies are normally subordinated to a ministry, and subject to its instructions in all matters.

Parliament ("Storting") has one Chamber, split up in two parts for the purpose of considering new legislation. It operates as a one chamber body when budget matters are considered. Elections are held every 4 years. Next general elections are due in September 1989.

2. Main budgetary organs

The Government's most important financial and budgetary policy functions are executed by the Ministry of Finance (MF). In addition, he has prime responsibility for economic policy formulation.

MF is divided into several departments: in addition to the Economic Department and the Budget Department, the Planning Department is engaged in forecasting economic developments. Tax legislation and tax revenue estimation and collections take place in various other departments. The Budget Department, with 35 professional staff, managed by a Director General, is split up into "offices" or divisions. Four offices are involved in monitoring and controlling expenditure of two or three ministries. The Planning Division co-ordinates preparation of the budget; accounting matters are the concern of the Public Accounts Division.

3. Role of the Prime Minister and Cabinet

In January, the Cabinet meets for several days to discuss the main guidelines for fiscal policy in the following budget year. Ministers are invited to endorse major economic proposals as well as preliminary budget frames, (i.e. total expenditure limits) for each Ministry's area of responsibility. In May, when budget proposals have been submitted to and reviewed by the Budget Department, the Minister of Finance will seek approval by the Cabinet for suggested directives in proceeding with the bilateral meetings with Cabinet colleagues. In August, unsettled matters are decided by Cabinet. After approval of the Budget proposal, the Cabinet transmits the budget and ancillary documents to Parliament and MF delivers the "finance speech".

The Prime Minister participates actively in the formulation of economic policy, and as head of Cabinet, draws conclusions in matters of diverging opinions.

The Cabinet usually acts collectively when budget matters are being considered. On certain types of issues, special committees may be appointed, consisting either of a limited number of ministers, or for example, Secretaries of State.

4. Role of Parliament

After the "finance speech" is delivered by the Minister of Finance, the Storting proceeds to treat the (preliminary) budget proposal in 12 permanent committees generally corresponding to the division of central government in ministries. It should be emphasized here that the status of the budget proposal differs from that of a budget bill. Under the Norwegian constitution, bills and budget proposals from the Cabinet are treated quite differently in Parliament.

The 12 committees appraise each appropriation item and may propose alterations. Committee proposals are discussed in plenary assembly and preliminary votes are conducted. Parliament controls expenditure at the level of about 1 600 budget items (in 1986). Amendments to budget items tend to be additions, their size generally being small in relation to total expenditure. On the basis of these amendments, the Ministry of Finance works out the proposal for a Final Budget. This proposal also

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds (3)	Private Sector	Total Expenditure
Central Government					Cons. 7.1 Int.P. 2.5 Subs. 5.1 Soc.Sec.T. 1.1 O.Curr.T. 0.9 Investm. 1.0 17.7	Cons. 7.1 Int.P. 2.5 Subs. 5.1 Soc.Sec.T. 5.9 O.Curr.T. 6.0 Investm. 1.0 27.5
			O.Curr.T. 5.1	Soc.Sec.T.: Curr. 4.8		
Local Authorities					Cons. 11.2 Int.P. 1.7 Subs. 0.5 Soc.Sec.T. 1.5 O.Curr.T. 0.0 Investm. 3.5 18.4	Cons. 11.2 Int.P. 1.7 Subs. 0.5 Soc.Sec.T. 1.5 O.Curr.T. 0.3 Investm. 3.5 18.8
		O.Curr.T. 0.3				
Social Security Funds (3)					Cons. 0.3 Soc.Sec.T. 12.4 O.Curr.T. 0.0 12.6	Cons. 0.3 Soc.Sec.T. 12.4 O.Curr.T. 2.7 15.3
		O.Curr.T. 0.9	O.Curr.T. 1.8			
Private Sector		Tax. 27. (Ind.Tax.) (16.3) S.S.C. 0.7 O.Rec. 4.6 32.3	Tax. 0.2 (Ind.Tax.) (0.2) S.S.C. 0.0 O.Rec. 1.6 9.8	S.S.C. 10.5 O.Rec. 0.6 11.1	General Government (Consolidated)	
					Cons. (Wages) 18.5 Int.P. (12.8) Subs. 4.2 Soc.Sec.T. 5.6 O.Curr.T. 15.0 Investm. 0.9 48.8	Tax. 35.4 S.S.C. 11.2 O.Rec. 6.7 Cons.F.C. 1.4 54.7
Total Revenues		Tax. 27.1 S.S.C. 0.7 O.Rec. 5.7 33.5	Tax. 8.2 S.S.C. 0.0 O.Rec. 0.5 16.7	S.S.C. 10.5 O.Rec. 5.3 15.9		Net Lending 5.9
Memorandum Items: (Cons.F.C.) (Net Lending)		(0.2) (6.2)	(1.3) (-0.8)	(0.6)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Social security funds are considered to be fully controlled by central government.

Source: OECD, Annual National Accounts.

revises economic forecasts, if necessary, and proposes a balancing of the budget, which implies that the government is authorised to borrow. This time, the Parliament finalises by voting on the total budget in the middle of December. Auditing of the budget is performed by a separate agency directly controlled by the Parliament.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Local governments (counties and municipalities) rely on taxes and a set of transfers from the Central Government budget. Among the important taxes are a

proportional income tax and a wealth tax, both with upper limits fixed by law. Property taxes are levied by some local authorities. Transfers by Central Government include funds for health care, social welfare programmes, basic and secondary schools, cultural purposes, etc.

Central Government has some effect on local authorities' capital expenditure by allocating loans through the Municipal Bank. Otherwise, capital outlays of local authorities are financed through other types of borrowing, taxes or operating revenues.

Social security is organised through central government, social security system (Folketrygden) and local government. Folketrygden is completely controlled by central government (and parliament), as they determine the benefits and social security contributions of social security schemes. Municipalities act as an agent of

Table 2
General Government Figures
In % GDP, 1975 (1) (2)

Notes: see table 1.

From	To	Central Government	Local Authorities	Social Security Funds(3)	Private Sector	Total Expenditure
Central Government					Cons. 8.0 Int.P. 1.3 Subs. 6.0 Soc.Sec.T. 1.6 O.Curr.T. 0.6 Investm. 1.5 19.0	Cons. 8.0 Int.P. 1.3 Subs. 6.0 Soc.Sec.T. 6.3 O.Curr.T. 1.9 Investm. 1.5 25.1
Local Authorities					Cons. 10.9 Int.P. 0.8 Subs. 0.2 Soc.Sec.T. 1.1 O.Curr.T. 0.0 Investm. 5.1 18.2	Cons. 10.9 Int.P. 0.8 Subs. 0.2 Soc.Sec.T. 1.3 O.Curr.T. 1.2 Investm. 5.1 19.6
Social Security Funds(3)					Cons. 0.3 Soc.Sec.T. 10.9 O.Curr.T. 0.0 11.2	Cons. 0.3 Soc.Sec.T. 10.9 O.Curr.T. 4.4 15.6
Private Sector						
		Tax. 23.7 (Ind.Tax.) (17.6) S.S.C. 1.3 O.Rec. 1.4 26.4	Tax. 10.0 (Ind.Tax.) (0.2) S.S.C. 0.0 O.Rec. 0.6 10.7	S.S.C. 12.1 O.Rec. 0.5 12.6	General Government (Consolidated)	
					Cons. 19.3 (Wages) (13.1) Int.P. 2.1 Subs. 6.2 Soc.Sec.T. 13.6 O.Curr.T. 0.6 Investm. 6.6 48.4	Tax. 33.8 S.S.C. 13.4 O.Rec. 2.5 Cons.F.C. 1.5 51.2
Total Revenues		Tax. 23.7 S.S.C. 1.3 O.Rec. 2.5 27.5	Tax. 10.0 S.S.C. 0.0 O.Rec. 6.4 16.4	S.S.C. 12.1 O.Rec. 5.4 17.5		Net Lending 2.8
Memorandum Items: (Cons.F.C.) (Net Lending)		(0.2) (2.7)	(1.3) (-1.8)	(1.9)		

central government in the delivery of social help (safety net provision).

The most important public enterprises in the area of electricity, railways and postal and telephone services, are included in the budget on a net basis. State companies' deficits are covered by the budget.

Expenditures are classified in 29 broad programmes. These programmes are generally defined by function. Shares of expenditures for main programmes are the following.

C. STRATEGIC AIMS AND GLOBAL NORMS

The construction of fiscal indicators is considered to be useful only for short-term policy formulation purposes. No agreement exists on the appropriateness of fiscal indicators for medium-term fiscal policy determination.

Table 3. Functional Classification of Expenditure (1986)
As per cent of total

Social security, of this:	29
Social welfare	22
Health care	7
Interest on and repayment of central government debt	9
Oil, energy and watercourse purposes (including loans to Statoil)	7
Church, education, research, culture	8
Military defence	7
Domestic transportation	6
Agriculture and forestry	5
Loans to state banks	4
Social welfare and health care purposes (other than social security)	5
Employment and regional policy	3
Development aid	3
Other programmes	11
Unallocated reserve	3
Total	100

Source: Ministry of Finance.

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Fiscal indicators (targets) for the budget year are presented in Report No. 1, the so-called National Budget, (see Section H), submitted to the Storting in the Autumn. These indicators include:

- Central government budget balance before loan transactions;
- Central government budget balance before loan transactions excluding the effects from the oil sector (the share of the oil sector in the national economy is estimated 20 per cent GDP in 1987);
- Central government spending total;
- Contribution from the budget balance to monetary growth.

The following table shows performance from 1980 and estimates for 1986, 1987, of some budgetary indicators.

Table 4. Fiscal Indicators 1980-1987
As percentage of GDP

	1980	1981	1982	1983	1984	1985	1986 (est.)	1987 (est.)
Budget balance	5.6	4.4	4.1	4.4	7.3	7.6	0.4	0.0
Adjusted budget balance excluding effects of oil sector ¹	-6.7	-6.6	-6.9	-7.2	-5.9	-4.3	-2.0	-0.7
Central government spending ¹	-	49.2	49.2	49.6	48.9	49.0	48.1	48.6

1. GDP is adjusted to exclude oil-sector production.

Source: Report No. 1, National Budget 1986, 1987 (see section H).

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year estimates (MYE) are prepared and presented for central government expenditure. To this

purpose, governmental activities are divided into 29 programme areas. Projections are prepared in MF, in the price and pay-level of the budget year.

In the annual budget proposal, expenditure of each programme area is projected, covering three future years beyond the budget year. MYE are basically meant to give information to Parliament about expenditure extrapolations under current legislation. No link exists between MYE of last budget-year and the preparation of a new, annual budget. Parliament does not approve MYE. No updates take place during the implementation of the budget.

2. Calendar of main points of decisionmaking and activities

The financial year (FY(t)) is the calendar year (t).

3. The annual budget cycle

In January, Cabinet decides a prescriptive framework for the net number of new employment positions of the respective ministries and agencies. In addition, preliminary ministerial spending limits are decided.

During the period February to April, the ministries elaborate and present budget estimates according to the limits set by the Government. The ministries may also present additional proposals and requests ranked to their priority order, for which they cannot find any resources within the preliminary limits.

After having received the estimates in May, the preliminary budget situation is discussed in the government. The expenditure proposals are discussed along with the revenue side of the budget and if necessary, the guidelines for the elaboration of the budget are revised.

During the period June to August, bilateral meetings are held between the Ministry of Finance and the other

Months before start of FY(t)	Main events and activities
(Year t-1)	
12 (January)	The Cabinet decides guidelines (mainly concerning new employment positions and technical instructions) for the preparation of the budget. The preliminary ministerial spending limits are decided.
11-9 (February-April)	Ministries prepare draft budgets, including proposals in excess of expenditure limits, ranked to their priority order. Draft budgets are submitted to Ministry of Finance (MF) late April, early May.
8 (May)	Cabinet has preliminary discussions on taxes and borrowing and decides on (revised) guidelines.
7-5 (June-August)	Draft budgets are scrutinised by MF. Bilateral negotiations between MF and ministries. If agreement is not obtained, the Cabinet will decide.
5 (August)	Cabinet has final discussions on next year's economic and expenditure policies.
3 October	Cabinet's budget proposals are submitted to Parliament.
1 (December)	Final consideration and amendments in Parliament. Final voting in middle of December.
(Year t)	
0 (1st January)	Financial year (t) starts.

ministries, aimed to agree upon necessary corrections of the budget estimates, on the basis of the new Government guidelines.

Larger items and items where agreements have not been reached, are decided upon in a final Cabinet conference during 2 or 3 days. In this conference, held in August-September, final decisions on the State revenues and economic policy are also made.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

MF is engaged in efficiency and effectiveness reviews when preparing the ministerial spending limits proposals in January.

Effectiveness and efficiency reviews are also undertaken by the Ministry of Consumer Affairs and Government Administration (MCG) and its Directorate of Organisation and Management (DOM), without linking these review activities to budgeting. Under MCG's direction, a systematic programme for the reform and simplification of rules and regulations is currently being carried out. DOM is in charge of the so-called policy area reviews. Partly ad hoc, and partly regularly, the directorate selects policy areas, which, in the course of a few months, are subject to analysis, aimed at the possibilities of administrative and organisational change and efficiency and effectiveness gains.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

In order to, among other things, reduce the strain on Parliament, Parliament has granted authority to the Government (and MF) to exceed appropriated expenditure amounts, if necessary. The Government is allowed, for each decision concerning a budget item, to spend up to a maximum of 3-4 million Kroner. The Ministry of Finance is authorised to allow additional spending of up to a maximum of about 1 million Kroner.

There is a reserve in the budget, which has been appropriated by Parliament. Government can use this reserve to cover estimate failures and to finance new policy initiatives.

Immediately after the Parliament's approval of the Budget, the ministries issue directives to their subordinate agencies, informing them of the resources at their disposal the following year ("allotment letter"). On this occasion, the ministries may choose to withhold funds in certain areas (e.g. investments in infrastructure), for

instance for financial management purposes. After having received the allotment letter, the subordinate agencies have the authority to spend within the instructed limits.

Agencies report to ministries on a regular basis and ministries usually analyse expenditure developments of their agencies. The Ministry of Finance is informed through bi-monthly reports of each agency on funds already spent.

Parliament is informed twice a year about the implementation of the budget, through rather technical reports.

2. Managerial discretion

In principle, appropriated funds cannot be transferred from one budget item to another, the budget item being defined as the homogenous economic category within a vote. However, transfers between current expenditure items are possible to some extent, in particular from wages to other current expenditure.

Carry-forward of funds, committed and uncommitted, is allowed for, if it is declared so in the budget, e.g. for investment expenditure. In addition, 5 per cent of wages and other current expenditure items in the budget can be carried forward.

G. CURRENT REFORMS

As a result of a governmental report from 1984, which examined the possibilities for productivity-increasing incentives in the governmental budget system, Parliament has adopted several important reforms. The changes are effective as from 1986. The main improvements are:

- More supporting budget information presented to Parliament, especially focusing on more result oriented kinds of budgeting like performance budgeting;
- Possibilities for agencies to use minor additional revenues without prior authorisation;
- In order to ease problems with annularity of the budget, it is now possible to transfer some appropriations from one year to another (see Section F2);
- More liberal rules for the ministries and agencies as to shifts between different categories of labour. Parliament continues to decide on the limits on the number of employment positions.

Recently, more attention is paid to the micro-level management of capital expenditures, since a cash-based budget is considered to bias against this kind of expenditure to some extent.

H. FURTHER INFORMATION

Documents related to the annual budget

The budget year is the calendar year (t).

1. Proposition No. 1 ("Yellow Book") containing the detailed proposal of the budget, a brief assessment of the economic and financial situation, a presentation of the main features of the proposed budget, and usually, multi-year expenditure estimates, October, year (t-1).
2. Proposition No. 1 Annex (*Fagproposisjon*). All ministries make a document where the proposals are listed in more detail. Separate annexes are also prepared for taxes, October, year (t-1).
3. Report No. 1 to the Storting (*Stortingsmelding nr. 1*), the National Budget, outlining the economic policy programme, including the so-called credit budget (first chapter translated into English), October, year (t-1).
4. Proposition No. 1 Supplementary No... After the Cabinet has submitted the budget to Parliament,

additional proposals are presented with a supplementary no., November and December year (t-1).

5. Final budget proposal (*Salderingsproposisjonen*), December, year (t-1).
6. Proposition No... (*Nysalderingsproposisjonen*), Cabinet proposals to Parliament about supplementary appropriations, January-December, year (t).

Other documents

7. Budget manual, (*Budsjettboken*) published by the Ministry of Finance, 1984.
8. Norwegian long-term programme, 1986-1989, (*Langtidsprogrammet 1986-89*) concerning the government programme for the medium-term, released just before elections, English translation available, March 1985.

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PORTUGAL

Any changes which may have taken place in Portugal since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

Portugal is a unitary state. There are three layers of government: state or central level with the Azores and Madeira as autonomous regions, districts and municipalities.

Central government is mainly organised around 12 ministries and numerous autonomous services and funds. Ministries have in general one Minister and one or more Secretaries of State. There are about 14 Ministers, all members of cabinet. The two most senior rank levels in the civil service can be political appointments.

Parliament has one House, in which 6 political parties are represented. There is a minority Government, supported by 1 political party (30 per cent). General elections are normally held every 4 years, the last one at end 1985.

2. Main budgetary organs

The central role in budgetary matters is played by the Minister of Finance and the Minister of the Plan and Regional Developments. The Ministry of Finance (MF) deals with the global fiscal objectives, the expenditure and revenue side of the budget, as well as with general financial and economic policy matters. The Ministry of the Plan and Regional Developments (MPRD) has prime responsibility in examining investment plans and drawing up investment budgets.

MF is divided into 3 State Secretariats, dealing with monetary, fiscal, and budgetary policy affairs respectively. Within MF budgetary activities are co-ordinated by the Directorate General of Public Accounts, which has prime responsibility in controlling the expenditure and taxation side of the budget. The Budget Directorate, and in particular its Government Budget Division, deal with, among other things, the co-ordination of the preparation and the implementation of the budget.

Mirror sections (services delegués) that monitor and control sectoral spending areas, are located in the spending ministries. They report directly to the Director General of Public Accounts. The Directorate of General Accounting Services provides the information on the revenue side of the budget. The Directorate General of Public Accounts employs some 700 staff (professional and supporting staff).

MPRD consists of one department, the Central Planning Department (DGP), which is engaged in examining medium-term investment plans. In the Ministry of the Plan preparation of investment-plans (investment-budgets) is coordinated by the Administrative Services Direction.

3. Role of President, Prime Minister and Cabinet

The President has no special prerogatives, nor a special role, in budgetary matters.

MF presents broad lines of budgetary policy to the Prime Minister who passes them on to the Council of Ministers. The broad lines include the economic assumptions, taken into account in the budget preparation, and the targeting of the balance of the new budget. The Prime Minister also plays a role if conflicts between MF and his colleague(s) cannot be solved. Cabinet approves the budget as it is submitted to Parliament.

Budgetary decisionmaking takes place in full cabinet, no sub-committee precedes cabinet sessions.

4. Role of Parliament

Parliament approves the Law of the Plan and the State Budget, and authorises (annual) borrowing capacity of central government (in per cent GDP).

Parliament examines and votes tax proposals and borrowing matters in full session, without any committee preceding its discussions. The other budgetary proposals are examined and approved by the Committee of Economy, Finances and the Plan, on a chapter by chapter basis (i.e. detailed level). All expenditure is appropriated annually, i.e. including entitlements authorised under separate legislation. Parliament

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approves the multi-year estimates of the investment plans.

Parliament is expected to approve the budget before 15th December. However, if Parliament does not approve the budget before the start of the new fiscal year, due to extraordinary circumstances, the budget of the previous year will be extended to the new year.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Central government controls local authorities' spending to a certain extent. The revenues of localities are made up of rural and urban land taxes and (a share

of) indirect and direct taxes and vehicles' tax in addition to revenues from local sources. They also participate in the Financial Equalisation Fund, which is funded from central government's budget. The ratio of transfers to be used for capital and current expenditure is fixed each year in the budget law. Local governments have free access to the capital market. They act as an agent of central government in e.g. construction of school buildings.

Resources of Autonomous Regions are partly provided by central government. Their budget deficits are partially financed by central government.

Social Security is mainly provided through social insurance funds, funded from social security contributions, government transfers, transfers from the Unemployment Fund and capital transfers from the budget.

Table 1
General Government Finances
In % GDP, 1981 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 12.8 Int. P. 5.2 Subs. 5.6 Soc. Sec. T. 1.9 O. Curr. T. 0.5 Investm. 2.4 Cap. T. 0.7 29.2	Cons. 12.8 Int. P. 5.2 Subs. 5.6 Soc. Sec. T. 2.6 O. Curr. T. 1.6 Investm. 2.4 Cap. T. 2.1 32.3
Local Authorities			O. Curr. T. 1.1 Cap. T. 1.4 2.5	Soc. Sec. T.: Curr. 0.5 Cap. 0.1 0.7		Cons. 1.3 Int. P. 0 Subs. 0 Soc. Sec. T. 0.1 O. Curr. T. 0 Investm. 1.9 Cap. T. 0 3.4
Social Security Funds					Cons. 0.7 Soc. Sec. T. 9.1 Curr. T. 0.2 Cap. T. 0.1 10.2	Cons. 0.7 Soc. Sec. T. 9.1 O. Curr. T. 0.2 Cap. T. 0.1 10.2
Private Sector	Tax. 21.6 (Ind. Tax.) (14.4) O. Rec. (3) 1.5 23.1	Tax. 0.6 (Ind. Tax.) (0.1) O. Rec. (3) 0.2 0.8	S.S.C. 9.3 O. Rec. (3) 0 9.3	General Government (Consolidated)		
Total Revenues	Tax. 21.6 O. Rec. (3) 1.5 23.2	Tax. 0.6 O. Rec. (3) 2.6 3.2	S.S.C. 9.3 O. Rec. (3) 0.7 10.0	Cons. 14.9 (Wages) (11.6) Int. P. 5.3 Subs. 5.6 Soc. Sec. T. 11.1 O. Curr. T. 0.7 Investm. 4.3 Cap. T. 0.9 42.8	Tax. 22.3 S.S.C. 9.3 O. Rec. (3) 1.7 Cons. F. C. (3) 0 33.3	Net Lending -9.5
Memorandum Items: (Cons. F. C.) (3) (Net Lending)		(-9.1)	(-0.2)	(-0.2)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Consumption of fixed capital is included in "other receipts" (O. Rec.).

Source: OECD, Annual National Accounts.

Central government and Parliament control social premium contributions and rates of benefits.

The so called productive sector of the State (as opposed to the administrative sector), is composed of several public enterprises. Their budgets are not fully integrated in central government's budget; subsidies and transfers, designed to finance their deficits, are included in central government's budget. In addition capital transfers are made available to finance their investments. Public enterprises can borrow on the capital market, as well as nationalised industries, under government guaranteed arrangements.

Functional spending areas are shown below.

Table 3. Functional Classification (1986)

As percentage of total

General Services	19
National Defence	6
Education	12
Health	10
Social Security and Assistance	5
Housing and Urban Equipment	1
Other public, social services	1
Economic Services	15
Debt servicing costs	31
Total	100

Source: *Orçamento do Estado* (see Section II)

C. STRATEGIC AIMS AND GLOBAL NORMS

Budgetary policies are developed in a medium term financial strategy, aiming to control inflation and to promote economic growth. With these objectives in mind, government focuses primarily on reduction of the budget deficit and restraining the growth of public expenditure.

In general, budgetary targets are communicated to Parliament through the Economic Plan. The Economic Plan is incorporated in a law designed to guide inter alia overall economic performance, budgetary targets, national investments and government investments, on the medium term. The Plan is based on medium term economic forecasting results. It has an indicative nature, except for proposals related to public sector finances. The Plan is rolled forward annually.

The budget is split up into a current and a capital account; the latter consists of investments under the Plan. The budget deficit refers to the total deficit of both capital and current account of central government. This global deficit is targeted to be 5 per cent in 1990. The current account should be balanced by then, excluding interest which is deemed to be chiefly the counterpart of the erosion of the debt by inflation.

Government expenditure is defined to cover central government.

Table 4. Fiscal Indicators, 1980-1986

As percentage of GDP

	1980	1981	1982	1983	1984	1985	1986 (estimate)
Central government budget deficit	10.2	10.3	9.7	8.0	9.2	12.0	9

Source: *Contas Gerais do Estado* (see Section II)

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year estimates are deployed for control and planning purposes as regards the investment plans. No multi-year estimates exist for current expenditure.

Investments estimates cover the budget year (t) and (up to) three future years. MY expenditure estimates comprise all investments covered by the Plan. They are in constant price level. Multi-year estimates are published.

2. Calendar of main points of decision making and activities

The fiscal year (FY(t)) is the calendar year (t).
(See table on page 150.)

3. The annual budget cycle

In the beginning of the budget cycle, the current and the capital budget proposals are developed separately.

Once the main guidelines for budget preparation have been set, the Ministry of Finance and the Central Department for Planning issue instructions to the spending ministries in March. Among the instructions is in recent years the requirement that current expenditure items shall not exceed the amounts for the corresponding items in the initial budget for the previous year. Current and capital transfers for the autonomous funds and organisations must be fixed by the Government and ministries cannot change the amounts.

In April, the spending ministries submit investments requests to MF and MPD which are then scrutinised by the Central Planning Department. In June, Cabinet fixes investment ceilings; subsequently, detailed plans are then worked out by the Central Planning Department, the multi-year results of which are communicated to Central Planning Department at the end of September.

Regarding the current budget, ministries prepare budget requests and submit them by the end of June to MF. In the next few months, these requests are examined by the Budget Directorate and, after discussion with ministries, submitted to the Secretary of State

PORTUGAL

Months before start of FY(t)	Main events and activities
(Year t-1)	
9 (April)	Spending ministries submit investments requests to MF and MPRD, which are then scrutinised by Central Planning Department (DGP).
7 (June)	Cabinet fixes investment ceilings for each Ministry. Ministries prepare (current) budget bids and submit them to MF and MPRD.
6-5 (July-August)	The Budget Directorate analyses budget requests, discusses them with spending departments and submits them to Secretary of State of the Budget who approves them.
4 (late September)	Central Planning Department sends to the Office of the Director General of Public Accounts estimates and other information regarding investments
4-3 (September-October)	Government prepares budget documents
3 (15th October)	Government submits budget and related documents to Parliament
3-1 (15th October-15th December)	Parliament debates and approves the budget
(Year t)	
0 (1st Jan)	Start of fiscal year (t)

of the Budget, who makes a final decision on expenditure ceilings.

In September to October, the ordinary budget and investment chapters are integrated into one global budget and budget documents are prepared for publication and submission to Parliament. After debate, Parliament has to approve the budget by (ultimately) 15th December.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

Mirror sections in each Ministry (see Section A2), review expenditure policies when preparing the new budget.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

Spending Ministries and agencies are allowed to spend 1/12 of total appropriated expenditure each month. MF and MPRD can approve exceptions. MF and MPRD can during the implementation stage of the budget impose a partial limit on departmental spending, in the sense that departments are not allowed to spend the last 10 or 15 per cent of their budget (affecting both current and capital expenditure).

There is a small reserve, appropriated by Parliament, in the budget of the Ministry of Finance, which can be used to finance expenditure overruns in case of estimate failures.

MF and MPRD can require prior approval to spend monies, even if they have been appropriated by Parliament.

Parliament is informed about the execution of the budget whenever they ask for it. The Auditing Office undertakes compliance reviews and reports on them only after the end of the budget-year.

2. Managerial discretion

A spending manager cannot transfer funds between votes, without Parliamentary approval.

Balances cannot be carried forward to the next budget year, except for certain investments projects in the Plan.

G. CURRENT REFORMS

A new classification of the budget will be implemented as from 1987. Expenditures will be categorised according to activities so as to better serve the management function of the budget.

H. FURTHER INFORMATION

Documents related to the annual budget

The fiscal year is the calendar year (t).

1. Budget of the State (*Orçamento do Estado*), summarises fiscal/economic background of the budget, main budgetary indicators and appropriations, March, year (t).

2. Economic Plan (*Grandes Opções do Plano*), main orientations of economic plan, includes medium term economic forecasts, end year (t).
3. Report of the Bank of Portugal (*Relatório do Banco Portugal*), fall, year (t+1).
4. General Accounts of the State (*Contas Gerais do Estado*), year (t+1).
5. National Accounts (*Contas Nacionais*), year (t+2/3).

Point of contact

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SPAIN

Any changes which may have taken place in Spain since 22nd June 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

Spain is a unitary State ruled under the form of a Parliamentary monarchy. Three levels of administration may be distinguished: state or central level, regional level and the provincial and municipal authorities.

Each region (or autonomous community) has, or will have, its own constitution, parliament, government, separate administration and independent courts. Each level of administration is in principle autonomous in fulfilling its constitutional tasks.

Central government functions are organised mainly around 15 ministries and several autonomous organisations. Ministries are headed by a Minister and sometimes one or two Secretaries of State. There are 15 Ministers, all members of Cabinet. The head of a department is a political appointment.

Parliament ('Cortes') has two Chambers – the Congreso or Chamber of Deputies, and the Senado or Senate. The members of the Congreso (350) and the Senado (253) are elected for 4 years. The last general election was held in June 1986. The Socialist Party has a majority in both Chambers.

2. Main budgetary organs

The central role in all budgetary matters is played by the Minister of Economics and Finance. He has an overall authority and responsibility in relation to the expenditure and revenues and the overall economic projections.

The Ministry of Economics and Finance (MEF) consists of three main divisions: the Finance Division, the State Secretary of Economy and Planning, and the State Secretary of Trade. The Finance Division (FD) is responsible for general public expenditure policies, tax revenues and the control of expenditure. FD is headed by the Secretary of State of Finance. Within FD, budgetary activities are co-ordinated by the Directorate General of the Budget (headed by the Director of the Budget)

which has prime responsibility for the preparation, co-ordination and implementation of both the expenditure and revenue side of the budget. The Directorate General of the Budget employs almost one hundred officials.

There is a Public Investments Committee, supported by the State Secretariat for Economy and Planning, which was created in 1980 by agreement of the Council of Ministers. Senior officials at director-general level participate in this committee. The Public Investments Committee discusses the draft bills presented by the ministries regarding their investment plans, after which the plans are approved, amended or rejected according to the guidelines laid down. This Committee also handles the revision of the longer-term investment plans of up to four years.

The Investments Committee presents to the Directorate General of the Budget information regarding the investments and capital transfers of General State Budgets.

3. Role of Cabinet

The Cabinet plays a very important role in the budget process. Cabinet approves the general regulations and determines the guidelines for economic, financial and monetary policy of the State. The total spending extent and expenditure issues which remain unresolved between MEF and his colleagues are discussed and decided by the Cabinet. At the beginning of the budget cycle, MEF proposes broad budgetary targets to the Cabinet for approval (rate of increase of aggregate expenditure, total amount of expenditure budget of central government, borrowing requirement). Finalisation of the budget also requires Cabinet decisions on specific taxation changes.

4. Role of Parliament

It is the duty of the Government to develop the National Budgets and it is the responsibility of the Parliament to examine them, making amendments if necessary, and approve them. The Government submits the General State Budgets to the Congreso at least three months before the expiry of the previous budget year.

Once the budget has been presented to Parliament, the budget documents are examined by a Budget Committee that prepares the discussion and decision-making in the Congreso. Once the Congreso has decided to adopt the budget law, it is submitted to the Senado. Procedures for approval in the Senado are the same as in the Congreso.

The Senado may amend, add something new, or even drop the bill; in the latter case, the bill must be submitted to a Plural Committee, made up of members of the Congreso and the Senado, whose role is to find a compromise between the resolutions of the two legislative bodies. Finally the Congreso must vote on the budget law, and either approve or reject it. The General

State Budgets Law may not create new tax legislation but may modify a tax law if this law allows for it.

All State Government expenditure is annually appropriated, i.e. including entitlements authorised under separate legislation.

Parliament can change the budget at the level of (175) economic 'concepts'. Votes are organised per Section (Department).

If Parliament has not passed the budget law at the beginning of the new fiscal year, the current budget can be extended and the department may spend up to 1/12 per month of the amount appropriated in the previous year pending parliamentary approval for the new budget year's estimates.

Table 1
General Government Figures
In % GDP, 1984 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 6.5 Int.P. 1.7 Subs. 2.3 Soc. Sec.T. 1.4 O.Curr.T. 1.3 Investm. 0.7 Cap.T. 1.6 15.4	Cons. 6.5 Int.P. 1.7 Subs. 2.3 Soc. Sec.T. 5.0 O.Curr.T. 2.3 Investm. 0.7 Cap.T. 2.1 20.7
Local Authorities					Cons. 3.6 Int.P. 0.4 Subs. 0.4 Soc. Sec.T. 0.1 O.Curr.T. 0.4 Investm. 1.2 Cap.T. 0.0 6.2	Cons. 3.6 Int.P. 0.4 Subs. 0.4 Soc. Sec.T. 0.1 O.Curr.T. 0.8 Investm. 1.2 Cap.T. 0.0 6.6
Social Security Funds					Cons. 2.5 Subs. 0.1 Soc. Sec.T. 12.6 Investm. 0.1 15.4	Cons. 2.5 Subs. 0.1 Soc. Sec.T. 12.6 Investm. 0.1 15.4
Private Sector	Tax. 12.0 (Ind.Tax.) (5.9) S.S.C. 1.0 O.Rec. 2.3 15.3	Tax. 4.6 (Ind.Tax.) (2.9) S.S.C. 0.4 O.Rec. 5.0		S.S.C. 11.6 O.Rec. 0.1 11.6	General Government (Consolidated)	
Total Revenues	Tax. 12.0 S.S.C. 1.0 O.Rec. 2.8 15.8	Tax. 4.6 S.S.C. 1.9 O.Rec. 6.5		S.S.C. 11.6 O.Rec. 3.7 15.3	Cons. (Wages) 12.6 Int.P. (10.0) Subs. 2.1 Soc. Sec.T. 2.8 O.Curr.T. 14.1 Investm. 1.7 Cap.T. 2.0 1.6 -37.0	Tax. 16.6 S.S.C. 13.7 O.Rec. 1.8 Cons.F.C. 0.0 32.1 Net Lending -4.9
Memorandum Items: (Cons.F.C.) (Net Lending)	(0) (-4.8)	(0) (0.1)		(0) (-0.1)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.

Source: Intervención General de la Administración del Estado.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

General Government expenditure is among the lowest in the OECD area in 1984.

According to the General Budgeting Law, the public sector is made up of two subsectors. The subsector of public administrations consists of central government (including autonomous organisations of administrative nature, like universities, or national institutes), social security funds, local authorities and autonomous com-

munities or regional authorities. The second subsector is made up of enterprises, mainly owned and/or controlled by public authorities, and public financial institutions.

The government submits General State Budgets to the Cortes consisting of the State-budget, budgets for administrative, commercial, industrial and financial autonomous organisations, accompanied by budgets for social security institutions, action plans (concerning investments and funds) and budgets of public enterprises.

The expenditure of local authorities is controlled through central government transfers. Local authorities

Table 2
General Government Figures
In % GDP, 1974 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government			0.Curr.T. 0.2	Soc.Sec.T.: Curr. 0.7	Cons. 6.4 Int.P. 0.4 Subs. 0.9 Soc.Sec.T. 1.2 O.Curr.T. 0.9 Investm. 1.5 Cap.T. 0.9 O.G.Acc. 0.1 12.2	Cons. 6.4 Int.P. 0.4 Subs. 0.9 Soc.Sec.T. 1.9 O.Curr.T. 1.1 Investm. 1.5 Cap.T. 0.9 O.G.Acc. 0.1 13.1
Local Authorities					Cons. 1.3 Int.P. 0.1 Subs. 0.1 Soc.Sec.T. 0.1 O.Curr.T. 0.0 Investm. 0.6 Cap.T. 0.0 O.G.Acc. 0.1 2.3	Cons. 1.3 Int.P. 0.1 Subs. 0.1 Soc.Sec.T. 0.1 O.Curr.T. 0.0 Investm. 0.6 Cap.T. 0.0 O.G.Acc. 0.1 2.3
Social Security Funds		0.Curr.T. 0.1			Cons. 1.1 Soc.Sec.T. 7.3 O.Curr.T. 0.1 Investm. 0.3 Cap.T. 0.1 8.8	Cons. 1.1 Soc.Sec.T. 7.3 O.Curr.T. 0.1 Investm. 0.3 Cap.T. 0.1 8.8
Private Sector	Tax. (Ind.Tax.) 9.4 (6.0) S.S.C. 0.1 O.Rec. 3.5 13.0	Tax. (Ind.Tax.) 1.5 (0.9) O.Rec. 0.3 1.8	Tax. (Ind.Tax.) 0.1 (0.1) S.S.C. 8.1 O.Rec. 0.2 8.4	General Government (Consolidated)		
				Cons. (Wages) 8.8 (6.8) Int.P. 0.5 Subs. 0.9 Soc.Sec.T. 8.6 O.Curr.T. 1.0 Investm. 2.4 Cap.T. 1.0 O.G.Acc. 0.1 23.3	Tax. 10.9 S.S.C. 8.2 O.Rec. 3.9 Cons.F.C. 0.4 23.5	
Total Revenues	Tax. 9.4 S.S.C. 0.1 O.Rec. 3.6 13.1	Tax. 1.5 O.Rec. 0.5 2.0	Tax. 0.1 S.S.C. 8.1 O.Rec. 0.8 9.0	Net Lending 0.2		
Memorandum Items: (Cons.F.C.) (Net lending)	(0.2) (0.2)	(0.1) (-0.3)	(0.1) (0.3)			

Notes: see table 1.

Source: OECD, Annual National Accounts.

cannot collect (state) taxes, or borrow money unless they are authorised by central government. They can act as an agent of central government in delivering, for example, social services.

Social security is mainly organised by social insurance funds which are financed predominantly by non-tax contributions. Central Government can determine terms of eligibility, generosity rates, and social security contributions by law.

There are big financial flows from the State Budget to loss-giving public enterprises. There are about \$00 public enterprises. Public enterprise budgets have a separate capital account as opposed to all other General State Budgets.

The following structure of expenditure by function is derived from budgets of Central Public Administration and Social Security.

Table 3. Functional Classification of Expenditure (1985)
As percentage of total

Pensions (social security benefits and social assistance grants)	26
Public debt	8
Transfer to regional authorities and local governments	7
Defence	6
Law and order	3
Unemployment support	5
Hospitals etc.	9
Education	4
Official credit	7
Agriculture and fishery	4
Industry and energy	4
Transports	4
Unallocated reserve	1
Other programmes	12
Total	100

Source: *El presupuesto para 1985*.

C. STRATEGIC AIMS AND GLOBAL NORMS

The global budget strategy which the Government intends to follow is set out in the annual multi-year Economic Programme 1985-1988, published in October 1985. This Programme specifies, expressed as a percentage of GDP, the following targets for central government: current budget deficit, aggregate non-capital spending, aggregate capital expenditure, revenue and expenditure in total and by economic chapters for each of the years 1985 to 1988.

The following table indicates the performance of budgetary indicators.

Table 4. Fiscal Indicators 1980-1986

Target value 1988 in brackets

As percentage of GDP

	1980	1981	1982	1983	1984	1985	1986 (est.)	1988 (target)
Current budget deficit	2.0	3.0	5.8	5.4	4.8	6.2	4.5	(3.6)
Aggregate non-capital expenditure	29.2	30.3	31.6	33.3	33.6	35.5	35.0	(34.3)
Aggregate capital expenditure	3.4	4.0	5.2	4.7	3.7	4.5	3.9	(4.6)

Source: *Intervención General de la Administración del Estado*.

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

There are no comprehensive multi-annual projections for government expenditure. However, a set of multi-year estimates exists for investment projects. These estimates reflect commitments of MEF vis-à-vis spending departments' investment plans. They cover the same period as the multi-year Economic Programme, i.e. the current year, the new budget year and two future years. Estimates are in constant and in current prices. In-year updates take place and are published in the General Intervention Report.

2. Calendar of main points of decisionmaking and activities

The fiscal year (FY(t)) is the calendar year (year t). (See table on page 156.)

3. The annual budget cycle

Before 1st March MEF issues the guidelines on the preparation of the budget and subsequently the Directorate General of the Budget issues instructions concerning the method and timetable and the documentation to be filled in.

Before 1st April, the government approves targets for current and capital expenditure for the new budget on the basis of economic forecasts and budget projections.

Each Ministry submits a so-called Target Report and multi-year expenditure estimates according to economic categories.

Months before start of FY(t)	Main events and activities
(Year t-1)	
10 (March)	Directorate General of the Budget issues technical guidelines on the preparation of the budget.
9 (April)	Government approves targets for capital and current expenditure for the next budget on the basis of economic forecasts and budget projections.
8 (May)	State Authorities, like the Cortes, and the ministerial departments submit to MEF the preliminary estimates of revenue and expenditure.
4 (September)	MEF prepares its estimates on the expected economic activity for the next budgetary year, and submits the General State Budget Bills to Cabinet.
3 (October)	Cabinet agrees on budget bills and submits them to Parliament.
(Year t)	
0 (1st January)	Start of fiscal year (t).

Before 1st May, the rest of the information is sent, including the draft budget of State and of autonomous organisations.

Based on the draft budget, revenue estimates and economic forecast, MEF transmits the draft General State Budget Bills to the Government.

These bills are forwarded to Parliament before 1st October.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

The process of information gathering followed for the preparation of the General State Budgets includes the requirement to the different agents to present complementary proposals to the Directorate General of the Budget. The level of expenditure should be indicated for each programme.

In this manner, the expenditure bids put forward by the different departments can be shown for each expenditure item. The Directorate General uses this information as a basis for carrying out the analysis of expenditure programmes so that they can make the allocations compatible with the available resources.

The Directorate General of the Budgets thus starts a process of examination and discussion of the expenditure levels in the programmes, the results of which are finally put forward for decisionmaking by the Council of Ministers.

Another type of review, which is increasingly important refers to the efficiency control which is implemented through analyses of operational costs and the performance or profitability of services, as well as through effectiveness reviews for relevant programmes. This control is exercised in conjunction with the managing departments.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

At the beginning of the budget year, MEF hands out a Budget Implementation Paper with technical and administrative regulations for the spending centres. Cash management and accounting rules provide the instruments for intra-governmental control of the execution of the budget.

During the implementation stage, internal, concomitant and administrative control is effected which is characteristic of the auditing function.

Parliament is informed about the implementation of the budget every 3 months.

2. Managerial discretion

The different spending centres have prime responsibility for the effectiveness and efficiency of their expenditure programmes.

A spending manager can transfer funds from one vote to another without Parliamentary approval, with restrictions specified in law. Balances can be carried forward to the next fiscal year, but approval of MEF is always needed.

G. CURRENT REFORMS

In 1983, a budgetary reform has been set in train which should eventually transform the traditional budget of means into a budget of ends or goals.

Such an integrated system will enhance the consistency and quality of budgetary decision-making by including public management, its agents, processes and means.

A number of steps have been taken to change organisation, and procedures, among which:

- Design of integrated target budget system;
- Automation of budgetary data-bases and development of applications software;
- Unification of management and administration of personnel costs, by creation of a new Directorate General of Personnel Costs;
- Preparation of budget rules for the public sector

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year is the calendar year (t).

1. General State Budgets Law (*Ley de presupuestos generales del estado*), Appropriation Law, December, year (t-1).
2. Budget Memorandum (*Presupuesto de ingresos y gastos del estado*), summarises tax proposals and gives all the key figures for revenues, expenditure and the public sector borrowing requirements, September, year (t-1).
3. Financial and Economic Report (*Informe economico financiero*), summarises economic background to the budget, describes the medium-term financial strategy and contains the macro-economic forecasts, September, year (t-1).
4. Tax Expenditure Budget (*Presupuesto de gastos fiscales*), gives information on the benefits, exemptions, reliefs and other advantages provided through the taxation system, September, year (t-1).
5. Report on the provisional results of the budget, (*Avance de liquidacion del Presupuesto*), September, year (t-1).
6. General government consolidated account (*Presupuesto consolidado del estado, sus organismos autonomos y seguridad social*) September, year (t).
7. Target Memorandum (*Memoria de Objetivos*), grouped by organic sectors, September, year (t).
8. Programme Budget (*Presupuestos por programas*), functional grouping of budget expenditure, September, year (t).
9. Economic Organic Memorandum (*Memoria economica organica*), characteristics and structure of budget, personnel policy, September, year (t).
10. Economic Report by Programmes (*Memoria economica por programas*), September, year (t).
11. Economic Report by Functions (*Memoria economica funcional*), September, year (t).
12. Annex Books: Real Investments (*Anexo de inversiones reales*), updates of investment plans, Personal (*Anexo de personal*), Transfers of Appropriations to Autonomous Communities (*Anexo de transferencias a CC.AA.*) September, year (t).
13. The evolution of the Spanish economy (*Evolucion General y Proyecciones de la Economia Espanola*), June, year (t-1).
14. Macro-economic scenarios for the Spanish Economy (*Escenarios Macroeconomicos*), June, year (t-1).
15. Economic Programme (*Programa Economico a corto plaza*), (for the years t-1 to t+2) sets out public economic targets, it contains multi-year estimates, macro-economic forecasts, sectoral policies and structural reforms, June, year (t-1).

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SWEDEN

Any changes which may have taken place in Sweden since 30th June 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

Sweden is a unitary state. There are 3 layers of government: the State or central government, regional authorities (county councils) and municipalities.

Central government consists of 12 ministries (known collectively as the Government Office) and about 250 agencies. The ministries are very small – few have more than 200 employees – as their task is mainly to assist the minister in policymaking. The implementation of policy is the responsibility of independent agencies, formally reporting to the Cabinet and not to individual ministers. All deliberations between government and the agencies are public. The borderline between formulation and implementation of policies is drawn by government, through collective Cabinet decisionmaking, thus preventing an individual minister's intervention in specific cases or in the implementation of policies that have been delegated to agencies.

Ministries have in general one or two ministers. They are usually elected members of Parliament but are replaced by a substitute member. The Under-Secretaries, the highest official rank of each ministry, are a political appointment, as are few more appointees. The large majority of the departmental personnel is non-political.

Parliament has one Chamber (Riksdag). Five political parties are represented, the social-democratic party supporting a minority government at present. Next regular elections are due in September 1988. Elections are held regularly every 3 years.

2. Main budgetary organs

After a split of the Ministry of Finance (MF) in 1976, into a budget ministry and ministry of economic affairs, the original MF was recreated in 1982. It has now prime responsibility for expenditure and taxation policies and for fiscal and economic policy. It is also, under a special Minister, responsible for government wage policy, bank

legislation and consumer policy. The National Audit Bureau has main responsibility for the tax (and other revenue) estimates.

The MF is now composed of the Legal Department (tax legislation), the Economic Policy Department and the Budget Department. The Budget Department, headed by a budget director, has 35 staff (all grades and supporting staff). Five divisions work in the budget department, each having both controlling functions regarding sectoral spending areas and "general" tasks, like budget forecasting, general budgetary issues and monitoring of the three-year budgeting of agency appropriations as well as internal personnel policy.

3. Role of Prime Minister and Cabinet

All government decisions are taken collectively in Cabinet.

The Prime Minister's Office is involved in the most important stages of the budget cycle. The government's stance on economic policy and expenditure policy, published twice a year, is decided by the Cabinet.

Policy guidelines issued by MF, are also first decided on by Cabinet. Thus Cabinet is involved at all stages of the budget process, although the negotiations on expenditure as a rule are held between the MF and the responsible ministry.

4. Role of Parliament

The budget documents, submitted by government to Parliament, are considered by the Finance Committee and by sectoral committees. The Finance Committee has no superior role to other sectoral committees in formulating the budget. Each committee has a staff of 3 to 5 officers.

Annual appropriations of all central government expenditure by Parliament is required including entitlements authorised under separate legislation. Parliament does not approve multi-year estimates.

By constitutional law, Parliament has to approve the Budget before the start of the fiscal year. If Parliament does not approve the budget, the Finance Committee can release funds, but it has never occurred.

Table 2
General Government Figures
in % GDP, 1974 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government						
			O.Curr.T. 5.8	Soc.Sec.T.: Curr. 1.6	Cons. 8.0 Int.P. 1.2 Subs. 1.2 Soc.Sec.T. 7.5 O.Curr.T. 1.2 Investm. 1.1 Cap.T. 0.2 O.G.Acc. 0.1 20.6	Cons. 8.0 Int.P. 1.2 Subs. 1.2 Soc.Sec.T. 9.1 O.Curr.T. 6.9 Investm. 1.1 Cap.T. 0.9 O.G.Acc. 0.1 28.7
Local Authorities						
		O.Curr.T. 0.7		Soc.Sec.T.: Curr. 0.2	Cons. 15.0 Int.P. 0.9 Subs. 0.4 Soc.Sec.T. 1.2 O.Curr.T. 0.9 Investm. 3.5 Cap.T. 0.1 O.G.Acc. 0.1 22.0	Cons. 15.0 Int.P. 0.9 Subs. 0.4 Soc.Sec.T. 1.4 O.Curr.T. 1.6 Investm. 3.5 Cap.T. 0.1 O.G.Acc. 0.1 22.9
Social Security Funds			O.Curr.T. 0.5		Cons. 0.3 Subs. 0.7 Soc.Sec.T. 4.8 5.8	Cons. 0.3 Subs. 0.7 Soc.Sec.T. 4.8 O.Curr.T. 0.5 6.3
Private Sector		Tax. 22.3 (Ind.Tax.) (12.9) S.S.C. 1.5 O.Rec. 2.1 25.9	Tax. 11.6 (Ind.Tax.) (0.4) S.S.C. 2.9 O.Rec. 14.5	S.S.C. 6.8 O.Rec. 1.9 8.7	General Government (Consolidated)	
Total Revenues		Tax. 22.3 S.S.C. 1.5 O.Rec. 2.8 26.6	Tax. 11.6 S.S.C. 9.9 O.Rec. 21.5	S.S.C. 6.8 O.Rec. 3.8 10.6	Cons. 23.2 (Wages) (15.8) Int.P. 2.1 Subs. 2.4 Soc.Sec.T. 13.5 O.Curr.T. 2.1 Investm. 4.6 Cap.T. 0.2 O.G.Acc. 0.2 48.4	Tax. 33.9 S.S.C. 8.3 O.Rec. 6.9 Cons.F.C. 1.2 50.4 Net Lending 2.0
Memorandum						
(Less: Cons.F.C.)		(0.3)	(0.9)	(4.2)		
(Net Lending)		(-1.8)	(-0.5)			

Notes: see table 1.

grants from other layers of government. Though they are allowed to have access to capital markets, local authorities only rarely do so.

Social security is organised through both budget and off-budget funds. From a policy point of view there is no difference between off-budget and on-budget financing. Parliament has to approve the compulsory payroll tax contributions, or wage-bill related fees, as well as other parameters, like eligibility terms. To the extent that there is a deficit of most social security funds, it is covered by central government. The social security system comprises basic and supplementary pensions, health insurance, occupational injury and unemployment insurance. Basic pensions are provided through

central government's budget. In addition, Central Government provides grants in aid (transfers) to social security funds. Supplementary pension funds for old age retirement schemes with general, mandatory coverage, are controlled by an independent board.

Public enterprises established by public law, and State companies are to finance their current operations from receipts. Part of investments by public enterprises is met from central government's appropriations. Interest and repayments are paid in as revenue to central government. State companies have to fund investment from their surplus or from market borrowing. Both public enterprises and State companies have to draw their operations in a commercially viable way.

Table 3. Functional Classification
of Central Government Outlays in 1985-86

As a percentage of total

Defence	8
Development co-operation	3
Justice and Police	3
Support to families with children	6
Health and social care	2
Transport	3
Block grants to regional and local governments	4
Education and research	12
Labour market and regional policies	6
Housing	4
Trade and industry	2
Energy	1
Interest payments on central government debt	23
Pensions and sick leave payments	16
Unallocated	6
Total	100

Source: Ministry of Finance

C. STRATEGIC AIMS AND GLOBAL NORMS

In a Bill to Parliament on Medium Term Economic Policy (1984), the Government adopted a medium term policy of reducing central government's budget deficit, relative to GDP, from 13 per cent in 1982 to 4.5 per cent by 1990 implying zero general government financial balance, excluding net loans made by the government. Tax revenues, including the local and regional proportional income tax and social security contributions relative to GDP were to keep approximately constant. This of course implies a reduction in the expenditure/GDP ratio. Parliament has endorsed this principle unanimously. General government financial balance includes budget balances of central, regional and local government, a surplus of the social security funds but not net loans made by the government.

The following table indicates realisation of target variables.

Table 4. Fiscal Indicators 1980-1986
As percentage of GDP

	1980	1981	1982	1983	1984	1985	1986 (estimate)
Central government budget deficit	10.1	11.6	13.2	11.3	9.6	6.7	4.6
Central government net borrowing	3.7	4.9	6.3	5.0	2.4	2.3	0.9
Taxation	49.5	50.9	50.1	50.7	50.9	51.6	51.6

Source: Ministry of Finance

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Multi-year estimates (MYE) for both revenues and expenditure of central government have mainly been developed to project budget-deficits and to highlight fiscal policy implications. They are not used for control purposes. MYE reflect current cabinet policy decisions and commitments for future years. The starting point is the next fiscal year. The projections cover four more future years.

MYE comprise all central government expenditure. The basic calculation of expenditure is made in a constant price and pay level. Then, calculations of expenditures and revenues are made in current prices in order to project the budget deficit.

Macro-economic assumptions, that underly budget estimates, relate to economic forecasting results. Two sets of economic assumptions basically one pessimistic and one optimistic "scenario" are employed and published with the resulting estimates of expenditure, revenue and deficit.

MYE are based on background material and constructed bottom-up by spending ministries and agencies for each of the 900 votes. MF however makes the final calculations and has the responsibility for publication. Since no policy changes are assumed in the projections, there is hardly any controversy over the projections. No in-year updates take place.

MYE are published once a year as an appendix of the Revised Budget Bill, both at functional levels and in economic categories (constant price and pay level).

2. Calendar of main points of decisionmaking and activities

The fiscal year runs from 1 July (year t) to 30 June (year $t+1$) and is usually indicated as FY($t/t+1$). (See table on page 162.)

3. The annual budget cycle

Though the preparation of the budget in fact starts with the issuing of guidelines by government to spending agencies, these guidelines are influenced by both Parliament's debates on the Revised (FY $t-1/t$) Budget Bill of the previous cycle and Government's general conclusion on economic, budget and expenditure policy in the budget bill for FY($t/t+1$).

Guidelines have included, since the late 70s, a 2 per cent cut yearly on administrative costs to secure productivity gains. This instruction has now been revised to 5 per cent in 3 years, so as to give the agencies more scope for planning their efforts and arranging priorities in order to make their activities more effective in the longer run.

The agencies' requests have to be presented to the competent ministries not later than 31 August. The

Months before start of FY (t/t+1)	Main events and activities
(Year t-1)	
17 (February)	Government issues directives to agencies prepared by MF.
14 (May)	The economic and budget policy of the government is presented to Parliament along with MYE of preceding (FY t-1/t) budget round and three year economic development assessments which are the basis for government policy formulation of Budget in FY(t/t+1). Parliament discusses policy-guidelines suggested by government.
11 (August)	Agencies present budget requests to ministries and MF.
9-7 (October-December)	Negotiations between ministries and MF.
(Year t)	
6 (January)	Budget Bill presented to Parliament.
6-4 (January-March)	Government presents to Parliament amendments to Budget Bill, negotiated between ministries and MF in the preceding fall with Budget Bill.
3 (April)	Government presents Revised Budget Bill FY(t/t+1) to Parliament.
2-1 (May-June)	Budget Bill passed by Parliament
0 (1 July)	Start of FY(t/t+1).

requests, which are public, often receive wide publicity.

The next step in the budget procedure lasts until 15 December, and essentially consists of preparation of the budget bill by ministries and MF, followed by MF negotiations with ministries. In the fall, all expenditure items to be presented to Parliament are negotiated, i.e. both the ones covered by the Budget Bill and the ones brought forward in amendments to the Budget Bill. In the Budget Bill, the financial effects of these amendments are thus included. The reason for amendments is to bring greater attention to the matter, usually a major change in sectoral policy.

The outcome of the process is the Budget Bill containing the economic policy and budget statement, a survey of the national economy, the suggested appropriations and appendices prepared by the ministries concerning the appropriations, which is presented to Parliament in early January. As noted above, for some expenditure items no estimates are given in the Budget Bill, the fiscal proposals being presented in separate supplementary bills in February and March. Decisions are taken by Parliament on general policy guidelines in the area and on each vote.

Late in April, the Government presents a revised Budget Bill, summing up the various bills presented after the Budget Bill and containing a revised economic policy and budget statement, a revised revenue estimate, a revision of the economic survey presented in the Budget Bill, the multi-year budget projections and the 3-year economic policy assessment.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

In general, the following should be borne in mind. Ministries are very small. Agencies perform their

executive tasks quite independently; all communication between agencies and government is public. Directives are given by the government as a whole, not by individual ministries.

Reviews take place under various arrangements and authorities. From time to time, government appoints committees. In some cases, members of Parliament participate, when there is a need for policy review or for thorough preparation of new or altered legislation. After the report has been circulated for comments by interested parties (such as government agencies, local governments, universities, trade unions, employers' associations etc.), the process being open to the public, they are used by the ministries in the preparation of, for example, new legislation. Earlier, in most cases, Committees proposed new public programmes or higher ambitions in old ones at higher costs. Nowadays, all committees formed by the Government are required to finance their recommendations by pointing out from where in the same area resources should be taken.

The National Audit Bureau (about 200 professional auditors/researchers) which is part of the government, performs effectiveness reviews in addition to the compliance reviews. The auditors are organised both in units reflecting the ministry organisation and in specialist functions (charges and fees, procurement, electronic data processing). They are organised under the Ministry of Public Administration, however with close ties to MF.

Parliamentary Auditors consist of twelve members of Parliament, backed up by a secretariat of some 20 auditors, and concentrate on issues of relatively general relevance to parliamentary decisions.

The Central Agency for Administrative Development is involved in organisational matters, notably computerisation matters. It also undertakes efficiency and effectiveness reviews of central government administrations

and to some extent of central government transfer programmes.

Finally, the expert group for studies in Public Finance (ESO) was set up to submit information for decisions concerning budgetary policy and public economy. A specific task was to study questions concerning productivity and effectiveness in the public sector.

The results of all above-mentioned reviews are published. This does not always occur in internal review procedures, set up by MF and/or spending agencies.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

Immediately after approval of the Budget by Parliament, the government issues directives to all departments and agencies about the implementation of the budget; that is how they can spend their funds. Under certain conditions, government can withhold funds appropriated by Parliament. In certain cases, funds can be exceeded, i.e. higher pension expenditure due to faster price increases.

In general, the implementation stage of the budget does not receive very much attention in the Ministries and MF. It is closely followed by the National Audit Bureau through auditing and making bi-monthly forecasts for outcome of current budget. Preparation of the budget and multi-annual planning of activities are thought to be superior in terms of setting priorities and effectively controlling government expenditure.

The most important financial task in the implementation stage is to protect the projected budget deficit against unforeseen changes. To this end, a kind of reserve (the so-called additional expenditure requirement) is deployed, which is however defined to cover more budgetary changes than those due to unforeseen circumstances. Some other elements of this reserve are: a provision for wage increases of government officials resulting from wage negotiations and a reserve for decided but not yet published expenditure increases, as well as a (negative) reserve in case of cut-backs, decided by government but not yet published. Foreseeable changes on the revenue side, for example new legislation still to be approved by Parliament, are also taken into account in this reserve. Net requirement usually amounts to around 1 per cent of total central government expenditure. On a gross basis, however, the percentage varies from 2 to 2½ per cent.

Parliament is informed about in-year developments of the budget through bi-monthly reports by the National Audit Bureau. Government presents a current year review to Parliament.

2. Managerial discretion

Appropriations can be of three different kinds (figures are based on National Audit Bureau calculations):

- Appropriations that cannot be exceeded nor carried forward. There are very few such appropriations covering about 1 per cent of total expenditure;
- Appropriations that can be exceeded but not be carried forward (among which entitlements); this is the largest category, covering about 85 per cent of total expenditure. They can be exceeded only if within the use decided by Parliament. Exceedings relate to demographic changes, price and wage development and are controlled by the auditors;
- Appropriations that cannot be exceeded, but that can be carried forward (for example, regional policies, energy saving measures and investment funds), covering remaining 14 per cent of total expenditure.

For the second type of appropriation, expenditure overruns, other than those due to demographical changes or price and pay developments, are hardly demanded by spending departments or agencies, nor, if any, granted.

Transfers between votes without Parliamentary approval are not allowed for.

G. CURRENT REFORMS

Administrative costs

Since block-budgeting at agency level has been introduced in the late seventies, consideration is given to diminishing the regulations that goes with it. About the only rule regarding the deployment of resources is the requirement that wages and salaries cannot exceed a certain maximum. Personnel costs are now budgeted in financial resources, rather than in numbers of staff.

Starting FY 1987/88 on a trial basis for a few agencies, budgeting will be framed more or less formally into a three year review cycle. Though appropriations will still have to be approved annually, agencies' resources are more deeply scrutinised once every three years and less in the other two years. Agencies can make longer range plans, adaptations can be prepared more at decentralised level.

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year runs from 1st July (year t) to 30th June (year t+1).

1. Budget Bill (*Budget propositionen*), 10th January year (t), containing:
 - Economic policy and budget statement, survey of national economy;
 - List of appropriations;
 - Appendices by ministries on appropriations.

2. Popular version of the Budget Bill (*Regeringens budgetforslag*), 10th January year(t), containing:
 - Economic policy and budget statement;
 - Short description of sector policies

English translation available ("Swedish Budget").

3. Revised Budget Bill (*Kompletteringsproposition Reviderad Finansplan*), end of April year(t), containing:
 - Revised economic policy and budget statement;
 - Revised survey of national economy;
 - Three year economic policy assessments;
 - Multi-year estimates.

The revised economic policy and budget statement is published in English.

4. Annual directives to agencies on how to prepare budget requests (*Aarliga direktiv*).
5. National Audit Bureau's presentation of government finances (*Statens finanser*).

Other documents

6. Budget Manual (*Budgethandboken*), general guidelines on how to prepare budget requests, revised about every 5 years.
7. Information to Parliament on the renewal of the Public Sector (*Skrivelse om fornyelse av offentlig sektor*) March 1985.
8. Development of productivity in public sector (*Offentliga transfer*), published by ESO and Ministry of Finance, 1986.
9. Committee on how to steer agencies (*Verksledningskomiteens betänkande*) concerning, inter alia, 3 year budget review cycle.

Point of contact

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TURKEY

Any changes which may have taken place in Turkey since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION-MAKING

1. Political and organisational structure of government

Turkey is a unitary state. Executive power is entrusted to the President and the Council of Ministers under the supervision of Parliament, the Turkish Grand National Assembly. Executive government is organised in Central Government; Local Governments (i.e. elected provincial governments, municipalities and villages); and State Economic Enterprises.

Central Government is headed by the Prime Minister and organised mainly in 14 ministries; 6 ministries of state; a deputy prime ministry; and several agencies. Ministers of State are ministers without portfolio, usually with special tasks assigned by the Prime Minister. All ministers are members of Cabinet and usually also of Parliament. In every province (67 in total) the governor represents, and is appointed by Central Government; and so does the town-governor in every town.

The single chamber Parliament is composed of 400 deputies, elected every five years. Six parties are represented in Parliament at present, and in addition there are a number of independent members. Last election was in 1983, and the next one will be in 1988.

2. Main budgetary organs

The main organisations involved in central budgeting are the Ministry of Finance and Customs; the State Planning Organisation; and the Undersecretariat of Treasury and Foreign Trade. Organisationally, the latter two offices are attached to the Deputy Prime Minister's Office.

The Ministry of Finance and Customs (MF) has principal responsibility for the preparation of the budget. The budget speech is delivered by MF in Parliament. MF also exercises considerable influence during the implementation of the budget.

MF is composed of the General Directorate of Budget and Fiscal Control; the General Directorate of Revenues; the General Directorate of Accounting; the Research, Planning and Co-ordination Board; and a number of other general directorates and boards.

The General Directorate of Budget and Fiscal Control administers the budget. It is involved in the preparation, implementation and reporting stages of budgeting. It has five divisions, which functionally, can be grouped into three departments:

- *The Department of Budget Administration* leads the way in the budget preparation and puts together the budget documents for presentation to the Parliament. The department is also responsible for the release, allocation, apportionment, and cancellation of appropriated funds. Each ministry has a budget director, appointed by the General Director of Budget and Fiscal Control, who reports to this department.
- *The Department of Public Administration* in collaboration with the State Personnel Office, which is an agency of the Prime Ministry, is in charge of personnel administration.
- *The Department of Financial Control and Expenditure Regulations* initially intervenes at the commitment stage of expenditure involving contracts by giving its approval. It also verifies all investment expenditures. The investment expenditures, which are subject to this approval, are regulated by the budget law every year. Secondly this department examines the draft laws concerning expenditures, before they are submitted to the Parliament.

Total staff of the General Directorate of Budget and Fiscal Control is about 240 in the central unit and a further 1200 approximately in the budget directorates in spending ministries and agencies.

The General Directorate of Revenues prepares the revenue side of the budget which is then included in the budget bill by the General Directorate of Budget and Fiscal Control. It also administers tax collection and tax legislation.

The General Directorate of Accounting compiles revenue and expenditure transactions and arranges the

general accounts for the Treasury; it also publishes the monthly Public Accounts Bulletin and prepares the Final Accounts Bill.

The Research, Planning and Coordination Board prepares the Annual Economic Report which is submitted to the Parliament together with the Budget Bill.

The Undersecretariat of the State Planning Organisation (SPO) is the secretariat of the High Planning Council (see Section A3). SPO makes assessments on the natural, social, economic and all other resources of the country, and assists the government in drawing up the economic and social policies and targets, both in the short and long term. It proposes the necessary measures

to secure the conformity of private sector activities with plan targets and aims, including incentives to encourage exports and investments. It puts forward proposals to the High Planning Council and acts as consultant for economic coordination among the ministries.

The Undersecretariat also prepares the investment budget on a project basis which then is included in the budget document by the General Directorate of Budget and Fiscal Control.

The Undersecretariat of Treasury and Foreign Trade establishes the policies related to the state's domestic and foreign loans short and long term debt management and also cash management.

Table 1
General Government Figures
In % GDP, 1965 (1) (2)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 7.6 Int.P. 2.2 Subs. 0.2 Soc.Sec.T. 0 O.Curr.T. 3.9 Investm. 3.6 Cap.T. 0.9 18.4	Cons. 7.6 Int.P. 2.2 Subs. 0.2 Soc.Sec.T. 0.8 O.Curr.T. 3.9 Investm. 3.6 Cap.T. 0.9 19.2
Local Authorities					Cons. 0.9 Int.P. 0 Subs. 0 Soc.Sec.T. 0 O.Curr.T. 0.1 Investm. 0.7 Cap.T. 0.1 1.8	Cons. 0.9 Int.P. 0 Subs. 0 Soc.Sec.T. 0 O.Curr.T. 0.1 Investm. 0.7 Cap.T. 0.1 1.8
Social Security Funds					Cons. 0.1 Soc.Sec.T. 2.9 3.0	Cons. 0.1 Soc.Sec.T. 2.9 3.0
Private Sector	Tax. 13.9 (Ind.Tax.) (7.3) O.Rec. 2.4 16.3	Tax. 1.3 (Ind.Tax.) (0.7) O.Rec. 0.7 2.0	S.S.C. 3.0 O.Rec. 0.4 3.4	General Government (Consolidated)		
Total Revenues	Tax. 13.9 O.Rec. 2.4 16.3	Tax. 1.3 O.Rec. 0.7 2.0	S.S.C. 3.0 O.Rec. 1.2 4.2	Cons. (Wages) 8.6 (5.2) Int.P. 2.2 Subs. 0.2 Soc.Sec.T. 2.9 O.Curr.T. 4.0 Investm. 4.3 Cap.T. 1.0 23.2	Tax. 15.2 S.S.C. 3.0 O.Rec. 3.5 21.7	Net Lending -1.5
Memorandum Items: (Cons.F.C.) (Net Lending)						
		(-2.9)	(0.2)	(1.2)		

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.

Source: Fifth Five Year Development Plan (1985-1989); 1987 Annual Programme (see Section H).

Source: OECD, Annual National Accounts.

3. Role of Prime Minister and Cabinet

The members of Cabinet (the Council of Ministers) are collectively responsible for the formulation and implementation of Government's general policy, while each minister is responsible for the expenditure of his ministry. The Prime Minister, apart from his role as chairman of Cabinet, also chairs the High Planning Council. Among its other members are the Deputy Prime Minister, the MF and the Under Secretary of SPO.

The High Planning Council plays an important role in planning and budgeting. It defines the economic and social targets of the Annual Programme, by which the Five Year Development Plan is implemented. It is also the principal forum for determination of budget ceilings within the framework of the Annual Programme.

There is also a Money and Credit Council and an Economic Affairs High Co-ordination Council; the latter Council deals mainly with the State Economic Enterprises. Both are headed by the Deputy Prime

Minister, and have ministers as well as top civil servants as members.

Cabinet decides the draft Budget Bill and submits it to Parliament in October, 75 days before the beginning of the new financial year.

4. Role of Parliament

The Budget Bill is first considered by the Plan and Budget Committee composed of 40 members of Parliament. The members of this Committee can propose any amendment they wish to the Budget Bill. The Committee has to adopt a revised Budget Bill within 55 days, which subsequently is considered by Parliament in plenary session. During these debates, members of Parliament cannot propose amendments that would increase expenditure or decrease revenues. Parliament debates the Budget Bill as amended by the Plan and Budget Committee; members of Parliament may express their opinions on the budgets of individual

Table 2
General Government Figures
In % GDP, 1972 (1) (2)

Notes: see table 1.

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government			O.Curr.T. 0.3	Soc.Sec.T.: Curr. 0.7	Cons. 11.6 Int.P. 0.7 Subs. 1.0 Soc.Sec.T. 0 O.Curr.T. 0.5 Investm. 4.2 Cap.T. 0 18.1	Cons. 11.6 Int.P. 0.7 Subs. 1.0 Soc.Sec.T. 0.7 O.Curr.T. 0.8 Investm. 4.2 Cap.T. 0 19.2
Local Authorities					Cons. 1.1 Int.P. 0 Subs. 0 Soc.Sec.T. 0 O.Curr.T. 0.1 Investm. 0.1 Cap.T. 0 1.3	Cons. 1.1 Int.P. 0 Subs. 0 Soc.Sec.T. 0 O.Curr.T. 0.1 Investm. 0.1 Cap.T. 0 1.3
Social Security Funds					Cons. 0.7 Soc.Sec.T. 1.8 2.5	Cons. 0.7 Soc.Sec.T. 1.8 2.5
Private Sector	Tax. 19.0 (Ind.Tax.) (11.0) O.Rec. 2.4 21.4	Tax. 0.7 (Ind.Tax.) (0.6) O.Rec. 0.2 0.9	S.S.C. 3.5 O.Rec. 0.9 4.4	General Government (Consolidated)		
				Cons. 13.8 (Wages) (10.2) Int.P. 0.7 Subs. 1.1 Soc.Sec.T. 1.9 O.Curr.T. 0.6 Investm. 4.0 Cap.T. 0 O.G.Acc. 0.5 22.5	Tax. 19.8 S.S.C. 3.5 O.Rec. 3.7 Cons.F.C. 0.3 27.4	
Total Revenues	Tax. 19.0 O.Rec. 2.4 21.4	Tax. 0.7 O.Rec. 0.4 1.1	S.S.C. 3.5 O.Rec. 1.5 5.0			Net Lending 4.9
Memorandum Items:						
(Cons.F.C.)	(0.3)	(0)				
(Net Lending)	(2.5)	(-0.2)		(2.5)		

ministries and agencies during this general debate. The various budget headings, and proposals for amendments, are then read out and put to the vote without separate debates.

Parliament, as well as the Plan and Budget Committee, can change the budget at programme level, the same level at which the final approval of Parliament takes place. There are about 300 programmes in the budget, which are categorised according to departmental areas.

If, exceptionally, the Budget Bill is not passed by Parliament before the start of the financial year, Parliament may pass a provisional Bill that authorises Government to spend up to a certain percentage of the amount appropriated by the budget of the previous year, until a new budget is passed by Parliament. The Budget Act is the only law the President cannot refer to Parliament for further consideration.

The appropriations granted by Parliament cannot be exceeded without prior authorisation from Parliament. Draft supplementary appropriation bills, and other draft legislation proposing additional financial commitments in the current or the following year, must indicate the financial resources including possibly further borrowing.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

There are 31 agencies (14 of which are ministries) in the general budget, while the annexed budget includes 39 agencies (28 of which are universities). Each annexed budget agency has revenues of its own, though only 3 of them can meet their expenditures with their own revenues. Around 85 per cent of the gross expenditure of the agencies in the annexed budget is financed from the general budget. In the consolidated budget these payments are of course netted out.

The general budget also includes transfers to State Economic Enterprises (SEEs). The transfers to these public enterprises have been significantly reduced in recent years. There are about one hundred SEEs. They are divided into two groups: the first of which operates on a normal commercial basis (for example, in textiles and oil industry), while the second group produces and markets monopoly and basic commodities (like postal services and railways).

There are a number of funds which are not included in the consolidated budget. The largest are the Public Participation Fund and the Mass Housing Fund. The Public Participation Fund is financed by the sales of shares in future revenues of the public infrastructure installations (such as bridges, dams, highways, etc.) and finances part of public investment expenditures. The board of the Public Participation Fund and Mass Housing Fund is made up of ministers and top civil servants and chaired by the Prime Minister.

Local Government expenditures amount to 10 per cent of public expenditure. It is financed partly by Local Government property taxes, operational revenues and municipal fees, partly by transfers of tax revenues from Central Government.

In general, social security programmes are implemented by off-budget agencies. There are several types of social pension funds organised on an occupational basis. Revenues and expenditures of these funds are not included in the consolidated budget. Contribution and benefit rates are set by legislation. Government contributes to the fund for public employees.

The following table summarises the functional distribution of expenditure.

Table 3. Functional Classification of Consolidated Government Expenditure (1986)
As a percentage of total

General Services	27
Defence	20
Justice and Security	4
Agriculture, Forestry	5
Mining	-
Hydraulic Works	6
Highways	4
Tourism	1
Education	11
Health	3
Public Works and Settlement	2
Social Services	1
Interest Payments	16
Total	100

Source: Budget Act, 1986 (see Section H).

C. STRATEGIC AIMS AND GLOBAL NORMS

Budgeting takes place within the broad framework of the fixed-term Five Year Development Plan. The constitution requires Government to submit Five Year Plans to Parliament. The approved plan and annual programmes are binding on the public sector and indicative for the private sector. The current (fifth) plan covers the years 1985 to 1989.

The Five Year Plan specifies targets for the economic, social and cultural development. Targets for public finance aggregates include total public current and capital expenditure, and total public revenues. The plan also specifies ratios of total public expenditure to GNP for each year, and corresponding real growth percentages.

The following table indicates the performance of budgetary indicators and their target in 1987.

Table 4. Fiscal Indicators

	1960	1961	1962	1963	1964	1965	1966 (Est.)	1967 (Target)
Total public current expenditure (real growth rate %)	8.4	0.9	2.0	1.7	3.0	3.2	7.4	(3.7)
Total public capital expenditure (real growth rate %)	-3.7	9.4	2.2	1.9	1.8	13.3	10.2	(6.4)
Revenues (% GNP)	19.9	22.4	23.1	23.8	22.0	24.0	26.0	(29.5)
Public Expenditure (% GNP)	31.3	28.3	29.3	31.1	32.5	30.9	32.6	(34.4)

Source: Fifth Five Year Development Plan (1963-1969), Annual Programme, 1967 (see Section II).

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

Currently, there is no formally designed system of multi-year budgeting for Central Government. The annual budget is worked out in accordance with the Annual Programme. It focuses on the total public sector, and does not establish targets specifically for Central Government.

As far as investments are concerned, agencies each year prepare five year investment plans. These are specified on a project basis and submitted to SPO.

2. Calendar of main points of decision-making and activities

The financial year (FY(t)) is the calendar year (year t).

Months before start of FY(t)	Main events and activities
(Year t-1)	
7 (June)	Prime Minister's Budget Message. Guide to the Budget, prepared and issued by MF
6 (July)	Preparation of individual ministry budgets
5 (August)	Negotiations between ministries, SPO, and MF
4 (September)	Series of meetings held among the SPO, MF, the Undersecretariat of Treasury and Foreign Trade high rank officials, preparing decisionmaking for the High Planning Council.
4-3 (September-October)	High Planning Council meetings.
3 (October)	Submitting the Budget Bill, Annual Economic Report, and Budget Memorandum to Parliament. Annual Programme announced as a Cabinet Decree
3-2 (October-November)	Debates on the Budget Bill in the Plan and Budget Committee of Parliament
1 (December)	Debates in the plenary session; approval of the Budget Law; and the promulgation of the Budget Law by the President. SPO issues the annual investment projects list as an annex to the Annual Programme.
(Year t)	
0 (1st January)	Start of fiscal year (t)

3. The annual budget cycle

The annual budget cycle starts with the Prime Minister's Budget Message concerning the principles of the coming year's budget policy.

MF issues a Guide to the Budget, which states a number of technical principles for the budget preparation, for example, the classification of programmes; classifications of transfers; and certain unit-cost standards relating to current expenditures.

Within this framework, the individual ministries prepare their draft budget proposals in what essentially is a bottom-up process during late June and July. During August, these draft budgets are negotiated with MF as far as current expenditures are concerned, while investment budget proposals are negotiated with the SPO.

The High Planning Council settles a top-down framework for the finalisation of the draft budget in September. It decides economic and social targets, and specifies the ceilings of current, investment and transfer allocations for the agencies. Within this framework, MF and the SPO finalise the draft budget in negotiations with agencies.

Seventy-five days before the beginning of the fiscal year, the Budget Bill, along with the Budget Memorandum and the Annual Economic Report, is submitted to Parliament.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

Each year the Cabinet issues a decree related to the Annual Programme called "Decree About the Implementation, Coordination and Surveillance of the Annual

Programme". According to this decree, the ministries and agencies prepare several reports relative to their functions. Two of these reports, about the agencies' investment programmes, are prepared quarterly and submitted to the SPO for reviewing. These reports are "Investments Realisation Report" and "Major Investments Report". These documents give detailed information concerning the expenditure, realisation and financial situation of each continuing project.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

Spending and revenue collections are monitored and published by MF in the monthly "Public Accounts Bulletin". It is an important and widely used document in which budget appropriations, budget expenditure and revenue assessments are stated on a general, annexed and consolidated budget basis, together with the balance sheet of the Treasury.

The Budget Act authorises MF to regulate spending throughout the fiscal year. Shortly after the approval of the budget by Parliament, MF issues a circular to all agencies stating the main principles of commitments and the maximum percentage of appropriations to be released within the first 6 months. A second circular is usually issued in late June. The principles and percentages of this apportionment of funds depend on general economic conditions; recent trends in expenditures and revenues; the need to spread current expenditure throughout the year; and the nature of the activities concerned. In addition, there is a separate control on the rate of cash outlays.

MF also exercises a commitment control ("contract visas") on commitments in current and future years. The types of expenditure subject to this control, and the limits of commitment, are laid down in the Budget Act.

If there is a need to achieve savings, the Prime Minister or MF may issue general guidelines on commitment of specified objects. The annual "Decree about the Implementation Coordination and Surveillance of the Annual Programme" comprises a procedure by which investment programmes can be revised, if necessary, and appropriations can be reallocated and cut back accordingly.

The budget of MF includes a Reserve Fund and an Investment Acceleration Fund, together amounting to about 3 per cent of total appropriation. They are used as emergency reserves for current and capital expenditure respectively.

Parliament is informed about the implementation of the budget once a year, through the enactment of the Final Accounts Bill. Members of Parliament, however,

can ask to be informed about the implementation of the budget at any moment.

2. Managerial discretion

Ministers are responsible for the efficient use of appropriated resources, although MF bears a general responsibility due to the authorities and duties vested in it by the Budget Act and General Accounting Law.

Parliament appropriates funds at the programme level; therefore appropriations can only be transferred between programmes with the approval of Parliament. Transfers of appropriations between the items of the same programme is only done by or with the consent of MF. However, (i) personnel appropriations can only be transferred to personnel items within the same and other programmes; (ii) investment appropriations can only be transferred with the consent of the SPO and by the MF within the same programme. All appropriations lapse at the end of the fiscal year, if they are not utilised.

G. CURRENT REFORMS

No budget reform is being considered at present.

H. FURTHER INFORMATION

Documents related to the annual budget

The financial year is the calendar year (1).

1. Guide to the Budget (*Bütçe Hazırlama Rehberi*), issued in June each year.
2. Budget Bill (*Bütçe Tasarıları*), October, year (t-1).
3. Budget Memorandum (*t Malt Yılı Bütçe Gerekçesi*), submitted to Parliament with the Budget Bill. It contains an analysis of current budget compared to previous five years, October, year (t-1).
4. Annual Economic Report (*Yıllık Ekonomik Rapor*), submitted to Parliament together with the Budget Bill. Analyses national and international economic trends, October, year (t-1).
5. Annual Programme (*Yıllık Program*), October, year (t-1).
6. Annual Investment Projects List (*t Yılı Programı Yatırım Projeliri*) as annex to the Annual Programme, December, year (t-1).
7. Budget Act (*t Bütçe Kanunu*), 1st January, year (t).

8. Decree About the Implementation, Co-ordination and Surveillance of the Annual Programme (*1 Yili Programinin Uygulanmasi, Koordinasyonu ve Izlenmesine dair Karar*).
9. Investments Realisation Report (*Yatirim Uygulama Raporu*), quarterly report on the implementation of investment projects.
10. Major Investments Report (*Onemli Proje Raporu*), quarterly report on the implementation of investment projects.

Other documents

11. Fifth Five Year Development Plan (1985-1989) (*Besinci Bes Yillik Kalkinma Plani*).

Point of contact

Bütçe ve Mali Kontrol Genel Müdürlüğü
(Directorate General of Budget and Financial Control)

Maliye ve Gümrük Bakanlığı
(Ministry of Finance and Customs)
Ulus, Ankara

UNITED KINGDOM

Any changes which may have taken place in the United Kingdom since 18th March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISION-MAKING

1. Political and organisational structure of government

The UK is a unitary state. Within central government, the responsibilities of the Secretaries of State for Scotland, Wales and Northern Ireland and those for (functional) departments involve in some instances quite complex relationships between departments.

Central government is headed by a Cabinet of around twenty members. Most members are responsible for one or more government departments. Departments either provide services themselves, or influence their provision by other authorities. Departmental ministers are in general supported by one or more junior ministers. The Permanent Secretary, or administrative head, of each department, is a non-political appointment, as are civil servants in general.

Parliament has two chambers, the House of Commons and the House of Lords. Members of the House of Lords are either hereditary peers, or life peers ennobled by the Queen on the advice of the Prime Minister. Four nationwide parties are represented in Parliament as are a number of parties representing regional interests. The Conservative party has been in power since (May) 1979, with an absolute majority in both chambers. The last election for the House of Commons was held in (June) 1983. A new election must be held within five years and may be called at the discretion of the Prime Minister, with the consent of the Queen.

2. Main budgetary organs

Within central government, the lead in budgetary matters rests with the Chancellor of the Exchequer. Under him, the Treasury is concerned with both the revenue and the expenditure side of the budget and with the formulation of economic and fiscal policy. Since 1981, the Treasury has reabsorbed most of the functions of the former Civil Service Department, including particularly responsibility for the size of the civil service.

Other departments reporting to the Chancellor include Inland Revenue and Customs and Excise, responsible for direct and indirect taxes, and the Department for National Savings, which administers the array of personal savings schemes which finance a significant part of the public sector borrowing requirement.

The Chief Secretary to the Treasury normally leads on behalf of the Chancellor on public expenditure matters so that the latter can concentrate on economic, monetary and tax policies. The Chief Secretary is a member of the Cabinet; he is supported by officials organised under a second Permanent Secretary in the public expenditure sector. The public expenditure sector comprises a central General Expenditure Policy Group with 6 to 7 staff in each of the forward planning and in-year control divisions, and a number of specific expenditure groups concerned with the affairs of particular spending departments. In total, some 380 people (including specialist and clerical support) are employed, covering the whole range of work on expenditure planning and control, manpower and financial management matters.

3. Role of Prime Minister and Cabinet

Cabinet colleagues will normally be invited, in March each year, to endorse guidelines and objectives for the annual survey of multi-year public expenditure. The survey covers the three financial years after the year in which the Survey is conducted. The first stage is to establish a baseline. For the first two years, the figures in the published plans are normally adopted and for the third year, the figures are produced by increasing the second year figure by a specified factor. Departments seeking additional provision, above the baseline, submit their requests to the Treasury. Cabinet then takes a view on the planning total for public expenditure in each of the next three years. If the total net additional provision sought would result in public spending in excess of the agreed planning total, the Chief Secretary then has discussions with each spending Minister in turn about his programmes. Issues that cannot be settled either in these "bilateral" meetings or by a small ad hoc committee of mainly non-departmental Ministers are

decided by Cabinet in time for the key conclusions of the survey to be announced in the Autumn Statement (see D3 below).

4. Role of Legislature

In its annual public expenditure White Paper the Government sets forth the plans for the next three years. Plans for the year immediately ahead provide the basis for Appropriations, cash limits and other spending controls. A standing Select Committee of the House of Commons, the Treasury and Civil Service Committee

(TCSC), examines the White Paper and reports on it for a debate in which Parliament is invited to take note of the plans. The TCSC also examines and reports on the Autumn Statement and the Budget¹ (including the Financial Statement and Budget Report). These too are debated by Parliament.

Parliament's control is brought to bear on departmental votes: only Parliament can grant supply, i.e. vote money for departments to spend. Most expenditure by central government for the next fiscal year, including its grants to local authorities, requires annual appropriation of funds by Parliament. Some expenditure, for example the payment of interest on government debt

Table 1
General Government Figures
In % GNP, 1984 (1)(2)(3)

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 13.3 Int.P.(3) 4.5 Subs. 2.0 Soc.Sec.T. 4.8 O.Curr.T. 2.4 Investm. 0.9 Cap.I. 0.8 28.6	Cons. 13.3 Int.P. 4.5 Subs. 2.0 Soc.Sec.T. 5.7 O.Curr.T. 8.7 Investm. 0.9 Cap.I. 0.9 35.9
			O.Curr.T. 6.3 Cap.T. 0.1 6.4	Soc.Sec.T.: Curr. 0.9		
Local Authorities					Cons. 8.4 Int.P.(3) 1.3 Subs. 0.4 Soc.Sec.T. 1.1 O.Curr.T. 0.6 Investm. 1.2 Cap.I. 0.4 13.3	Cons. 8.4 Int.P. 1.3 Subs. 0.4 Soc.Sec.T. 1.1 O.Curr.T. 0.6 Investm. 1.2 Cap.T. 0.4 13.3
Social Security Funds					Cons. 0.2 Soc.Sec.T. 6.8 7.1	Cons. 0.2 Soc.Sec.T. 6.8 7.1
Private Sector	Tax. 27.4 (Ind.Tax.) (12.0) S.S.C. 0.8 O.Rec.(3) 4.0 32.2	Tax. 4.1 (Ind.Tax.) (4.1) S.S.C. 0.8 O.Rec.(3) 1.2 5.3	S.S.C. 6.3	General Government (3) (Consolidated)	Cons. 21.9 (Wages) (13.4) Int.P.(3) 4.9 Subs. 2.5 Soc.Sec.T. 12.7 O.Curr.T. 3.0 Investm. 2.0 Cap.T. 1.3 48.2	Tax. 31.5 S.S.C. 7.1 O.Rec.(3) 4.5 Cons.F.C. 1.2 44.3
Total Revenues	Tax. 27.4 S.S.C. 0.8 O.Rec. 4.0 32.2	Tax. 4.1 O.Rec. 7.6 11.7	S.S.C. 6.3 O.Rec. 7.3			Net Lending -3.9
Memorandum Items: (Cons.F.C.) (Net Lending)	(0.3) (-3.4)	(0.9) (-0.7)	(0.3)			

- For explanation and comments, see the introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Due to consolidation problems, total general government is not equal to the sum of subsectors.

Source: DECO, Annual National Accounts.

Table 2
General Government Figures
In % GDP, 1974 (1) (2) (3)

Notes: see table 1.

From	To	Central Government	Local Authorities	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. 11.9 Int.P. (3) 2.7 Subs. 3.3 Soc. Sec. T. 2.4 O.Curr.T. 1.8 Investm. 1.2 Cap.T. 1.1 24.3	Cons. 11.9 Int.P. 2.7 Subs. 3.3 Soc. Sec. T. 3.3 O.Curr.T. 7.4 Investm. 1.2 Cap.T. 1.4 31.1
			O.Curr.T. 5.6 Cap.T. 0.3 5.9	Soc. Sec. T.: Curr. 0.9		
Local Authorities					Cons. 7.9 Int.P. (3) 2.4 Subs. 0.3 Soc. Sec. T. 0.4 O.Curr.T. 0.4 Investm. 4.1 Cap.T. 0.2 15.7	Cons. 7.9 Int.P. 2.4 Subs. 0.3 Soc. Sec. T. 0.4 O.Curr.T. 0.4 Investm. 4.1 Cap.T. 0.2 15.7
Social Security Funds					Cons. 0.2 Soc. Sec. T. 5.9 6.2	Cons. 0.2 Soc. Sec. T. 5.9 6.2
Private Sector	Tax. 25.7 (Ind. Tax.) (9.6) S.S.C. 0.3 O.Rec. (3) 3.8 29.8	Tax. 3.7 (Ind. Tax.) (3.7) O.Rec. (3) 1.8 5.5	S.S.C. 5.6 O.Rec. (3) 0.1 5.8	General Government (3) (Consolidated)		
					Cons. 20.0 (Wages) (12.9) Int.P. (3) 4.2 Subs. 3.6 Soc. Sec. T. 8.7 O.Curr.T. 2.2 Investm. 5.2 Cap.T. 1.3 45.3	Tax. 29.4 S.S.C. 6.0 O.Rec. (3) 4.8 Cons. F.C. 1.3 41.5
Total Revenues	Tax. 25.7 S.S.C. 0.3 O.Rec. 3.8 29.8	Tax. 3.7 O.Rec. 7.6 11.3	S.S.C. 5.6 O.Rec. 1.1 6.7	Net Lending -3.8		
Memorandum Items: (Cons. F.C.) (Net Lending)	(0.3) (-1.0)	(1.1) (-3.4)	(0.5)			

and entitlements under the National Insurance Fund, rests on a standing authority. The Appropriation Act lists only the total sum of each vote and its coverage in broad terms (called the ambit of the vote). The accounts of actual spending that are presented formally to Parliament by the Comptroller and Auditor General show how the money voted was spent subhead by subhead (i.e. about 2000 items, divided between nearly 200 votes). In order for public services to be financed from the start of the new fiscal year until the passing of the Appropriation Act, Parliament grants votes on Accounts. The amount of a vote on Account is normally a standard provision of 45 per cent of the amount already voted for the corresponding services in the current year. But there are also procedures for varying the standard provision on a vote on Account. In practice, only the Executive Government proposes to Parliament additions to expenditure but Parliament can exert political pressure to raise expenditure. Parliament can also propose reductions but in practice the Government would normally use its majority to protect its own

proposals. In practice, Parliament debates mainly economic and fiscal strategy and priorities.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

As the Tables 1 and 2 show above, the increase in general government expenditure was among the lowest of all OECD countries. General government's net lending has not increased at all since 1974, though central government's budget deficit has deteriorated by about 2½ percentage points.

Local authorities receive very substantial grants from government to help finance current services for which they are responsible – notably education and police services. The amount of block grant can be varied to penalise authorities which spend more than is planned

by central government. Central government also controls local authorities' capital expenditure through a system of capital allocations. Local authorities may also borrow to finance capital expenditure, but not for current expenditure, which is limited to the sum of central government grants and "rates" (see below). The most recent development is legislation enabling the government effectively to put a limit on the amount of revenue an individual authority can raise through the local tax which is on dwellings and most other real estate apart from agricultural land and buildings (the local tax is known as rates; the limitation of this form of local taxation is known colloquially as rate-capping). The government has recently published a consultative document on the form of local taxation and the basis of central government grant.

Unemployment benefit, the state retirement benefit, some minor benefits and invalidity and sickness benefit, have been financed through a National Insurance Fund which is a government fund financed mainly by employers, employees and the self-employed. This accounts for about 57 per cent of all social security payments, the balance being funded from votes. Changes in rates of benefit are governed partly by statutory rules and partly by Ministerial decision. Changes in rates of contributions are proposed to Parliament by the government. They are normally intended to produce little change in the accumulated balance of the fund. National Insurance contributions are regarded as a claim on taxable capacity but it is believed that, to some extent, the public distinguishes them from taxes.

An important range of services is provided by nationalised industries and other public bodies. Typically, the Government reviews their investment and financing plans and agrees each year with each corporation a limit on its access to external financing (its "External Financing Limit" or EFL). Their requirement for external finance is included in the public expenditure planning total, and currently amounts to less than 1 per cent of that total. In addition, there are a number of government-owned companies which are classified as being in the private sector. In such cases only any government finance is included in public expenditure. The companies' external financing from other sources (even if government guaranteed) is not accounted for in either public expenditure or the public sector borrowing requirement.

The structure of public expenditure by function is approximately as in table 3.

C. STRATEGIC AIMS AND GLOBAL NORMS

The government's budgetary policy is developed in the context of its Medium-Term Financial Strategy (MTFS) which provides the framework for economic

Table 3. Functional Classification of Public Expenditure (1985-86)

As percentage of total	
Social Security	31
Health and personal social services	15
Defence	13
Education and science	13
Trade, industry, energy	3
Employment and training	2
Law and order	5
Transport	4
Other programmes	15
Total	100

Source: The Government's Expenditure Plans, 1986, Cmnd 9702 (see Section B).

policy, as it has since 1980. The current MTFS covers the next four years. Each year at Budget time, the MTFS is updated, but the objective of the elimination of inflation over a period of years remains unchanged. The Government believes that this objective necessitates firm monetary policies supported by low public sector borrowing in the medium term. But there may be scope for varying the balance between fiscal and monetary policy, especially in the short term and in practice the Budget provides the main opportunity for reviewing fiscal policy. In addition, the annual updating of the MTFS provides the opportunity for publishing illustrative projections of general government expenditure and revenues. At present the cash totals set within this framework for public spending are designed to hold total spending broadly level in real terms.

With respect to the Public Sector Borrowing Requirement (PSBR), the MTFS provides for projections for the four years, including the budget year. The PSBR is the difference between public sector receipts from and payments to the private domestic sector and abroad, including net lending to private domestic sector and abroad, net cash expenditure on company securities (including privatisation proceeds) and some minor financial transactions. The net PSBR in FY 1985-86 is expected to be about 2 per cent of GDP. The latest MTFS (March 1986) projected the PSBR to be 1½ per cent of GDP in FYs 1988-89 and 1989-90.

The key aggregate of public expenditure for planning and control purposes is the planning-total; this concept refers to expenditure by central and local government plus the requirements for external finance of nationalised industries and other public corporations. The planning total also includes an unallocated reserve for contingencies. Proceeds from privatisation are treated as negative expenditure. Debt interest payments are excluded from the planning-total because they are not susceptible to control from year to year, but are shown as part of general Government expenditure.

The current targets for 1988-89 have been indicated in the table below. For the fiscal years 1980-1986 performance on realisation of targets has been added.

Table 4. Fiscal Indicators

	Public Expenditure Planning Total	Public Sector Borrowing Requirement	
	(£ billion)	(£ billion)	(% GDP)
1980-81	92.6	13.2	5%
1981-82	104.0	8.6	3%
1982-83	113.3	8.9	3%
1983-84	120.3	9.7	3%
1984-85	129.6	10.1	3%
1985-86	133.9	7.1	2
1988-89 (target)	(148.7)	(7.0)	(1%)

Source: *The Government's Expenditure Plans, 1986 Cmsd 9702; Financial Statement and Budget Report, 1986 (see Section II)*

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

The forward expenditure plans are drawn up on the basis of a three-year rolling cycle. Figures for all three years are expressed in cash terms. At the end of the cycle, the resulting figures for year 1 are translated into detailed spending controls, for example, cash limits and external financing limits for the year immediately ahead. Figures for years 2 and 3 are subject to review in subsequent planning cycles. But the presumption is that the aggregate cash plans should nonetheless remain unchanged, and all departments are expected wherever possible to live within the cash allocations previously agreed.

In the aggregate cash plans, central reserves are included to protect the planning total (see below) against, for example, unforeseen policy initiatives, revised estimates of demand-led programmes or of local authorities' spending, and other overruns, if these cannot be absorbed by the spending department concerned. These central reserves for years 2 and 3 are generally set at a higher level than for year 1, peaking at some 5 per cent of the planning total in the third year in the latest plans.

Public expenditure cash figures take into account overall price assumptions for each year and also, where relevant, other macro-economic assumptions, e.g. for unemployment and interest rates. But plans for discretionary spending are not automatically adjusted for changes in general price assumptions and departments are expected to make the necessary adjustments to keep within their cash provision.

The planning totals published in the previous year's public expenditure White Paper, and revised in the Budget, are the starting point or baseline for reviewing public expenditure plans. Initial figures for the new final year are generated centrally by applying a (small) rate of change to the figures for the previous final year.

The production of revised expenditure plans is the culmination of negotiations between the centre and spending ministries and agencies. This process starts around mid March and ends in the publication of the Autumn Statement giving the broad results of the annual review of public spending (see section D2/3 for more information). Ministers negotiate for provision for their entire department but, in most cases, the Treasury is also concerned with expenditure on individual elements of departmental programmes.

The detailed expenditure plans are then published in the annual public expenditure White Paper which provides the basis for the annual appropriations for the financial year immediately ahead. Revised projections of, inter alia, government spending over the medium term are given in the Financial Statement and Budget Report on Budget day.

2. Calendar of main points of decisionmaking and activities

The financial year runs from 1 April (year t) until 31 March (year $t+1$) and is usually designated as FY($t/t+1$). (See table on page 177.)

3. The annual budget cycle

In the months up to May of the annual review, departments examine their existing programmes, and, where they consider that additional provision above the baseline is required, as a result of developments since the previous survey, they submit their proposals to the Treasury.

Information relevant to the survey is set out in the Public Expenditure Survey report. In July the Chief Secretary asks Cabinet to endorse his proposals for the total of expenditure to be aimed at in each year. For instance, the Cabinet may confirm that the planning totals shall be the same as in the plans published in the latest annual White Paper; and therefore that all necessary revisions to individual programmes must be contained within an unchanged total.

In the light of Cabinet's conclusions the Chief Secretary sends a "bidding letter" to each colleague setting out his proposals for the size of that colleague's area of spending responsibilities and invites him to a bilateral negotiation in the early Autumn.

What cannot be agreed at that stage is referred to Cabinet, or quite often, first to an ad hoc group of Ministers led by a non-departmental Minister of senior rank.

By November the Government prepares its Autumn Statement for publication, containing its latest short-term economic forecasts and key totals for public expenditure plans for the next 3 fiscal years.

Early in the New Year the annual White Paper on the Government's public expenditure plans for three years ahead is published, recording the full outcome of the

Months before start of FY(t/t+1)	Main events and activities
(Year t-1)	
12-11 (April-May)	Ministries start preparation of public expenditure survey report, an internal document containing information on the baseline provision for the next 3 fiscal years, and their proposals for any changes in priorities and overall provision.
9 (July)	Cabinet takes view on planning totals, based on Chief Secretary's proposals, after which Chief Secretary sends a letter to each colleague with proposals for that colleague's area of spending responsibilities.
7-6 (early Autumn)	Bilateral and, if necessary, multilateral negotiations at ministerial level.
6-5 (October/November)	Government prepares its Autumn Statement for publication, with inter alia key totals for the public expenditure plan for the next 3 fiscal years.
(Year t)	
3 (Early New Year)	Publication of White Paper, recording detailed outcome of Public Expenditure Survey
3-2 (January-February)	Detailed scrutiny of ministerial bids for voted expenditure in FY(t/t+1).
1 (Mid March)	Budget Day: Publication of Estimates and submission of the budget to Parliament along with tax proposals for the year ahead and restatement of MTFs
0 (1 April)	Start of fiscal year (t/t+1)
(+4) (End July)	Completion of legislative processes on both taxation and expenditure.

public expenditure survey. Parliament 'takes note' of this after a debate.

More detailed control is exercised over spending in the year immediately ahead. In December, each Government department submits to the Treasury details of the expenditure in the coming financial year for which it requires Parliamentary authority. These estimates are derived from the plans in the Autumn Statement. They are scrutinised by the Treasury in January and February.

On Budget day detailed vote Estimates are presented to Parliament along with the Chancellor of the Exchequer's tax proposals for the year ahead.

Before Parliament breaks for the Summer at end-July (exceptionally, early August) the legislative processes on both taxation (Finance Act) and expenditure (Appropriation Act) must have been completed.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

The Government's sustained aim of curbing public expenditure and its emphasis on efficiency and good management have led to a critical review and analysis of policies and administrative activities throughout government. All departments carry out 'efficiency scrutinies' of how specific tasks, usually of an executive character, are performed. Ceilings on public expenditure have also stimulated policy reviews, including fundamental reviews on the social security system (some 30 per cent of all public expenditure), a review of regional policy and examinations of the effectiveness of

a range of employment measures. These are in addition to routine scrutiny of departments by the Treasury, and its encouragement of economies.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

The unallocated Reserve is managed to ensure, so far as possible, that the planning total for a year is not exceeded. Thus, if it seems likely that expenditure which is demand-led in the short-term (such as social security benefits) or expenditure which central government does not make directly (e.g. expenditure on current account by local authorities) will exceed the levels planned, the Treasury will be more restrictive about proposals for other, more "discretionary", expenditure.

Cash limits are applied to all types of expenditure that can be managed by setting a pre-determined maximum for the year. About two thirds of votes (or about half of the public expenditure planning total) are subject to cash limits. The main exclusions are those "demand-determined" services such as social security benefits where, once policy and rates of payment have been determined, expenditure depends on such factors as the number of qualified recipients coming forward. Expenditure subject to cash limits includes:

1. Pay, other "running costs" (see Section G below) and expenditure on fixed assets by central government departments;
2. The defence budget and the hospital services;
3. Grants to many institutions;

4. Central government's general grants to local authorities for spending on current account.

Some large items and new commitments need prior Treasury approval even if the necessary finance has been voted by Parliament.

2. Managerial discretion

The economy, efficiency and effectiveness of an individual spending department is the responsibility of its Minister. The Treasury has in addition a responsibility to represent the taxpayer and ensure an appropriate allocation of funds between departments.

Within a department, the Permanent Secretary necessarily has to delegate day to day responsibilities. How far this is done varies between departments but in every case a Principal Finance Officer is chosen by the Permanent Secretary, to oversee the arrangements. Appointment of an individual as Principal Finance Officer is subject to the approval of the Treasury and the Cabinet Office (Management and Personnel Office).

During a year a department may transfer funds between the items of a vote in certain circumstances subject to approval by the Treasury. It cannot transfer unspent funds from one vote to another: such transfers require Parliamentary approval. The Permanent Secretary, as Accounting Officer, may be questioned by the relevant Parliamentary Committee on his department's spending.

Appropriations for current expenditure must be spent in the year in which they are voted, but for central government cash-limited capital expenditure up to 5 per cent of the cash limit may be carried forward, under an end-year flexibility scheme.

G. CURRENT REFORMS

The Government is now placing major importance on the need to improve the output and performance of public spending. This is closely linked to the developments under the Financial Management Initiative, including the need for delegated budgeting linked to clear specification of output and performance targets. Recent annual Public Expenditure White Papers have included substantially more material on measures of output, performance and value for money in public spending.

The Government is also considering reform of the system of local taxation.

The number of civil servants has been reduced by 19 per cent since 1979 to 596 000 in October 1985, but total administrative costs are equally important. Separate control of departmental running costs has therefore been introduced as part of the objective of securing greater efficiency and value for money in a smaller but more

effective civil service. The main element of running costs is the pay bill but they also cover accommodation, personnel overheads and office services. When running costs control is working effectively, the Government will review the need for a separate manpower control.

H. FURTHER INFORMATION

Documents related to annual budget

The financial year runs from 1st April (year t) until 31st March (year $t+1$) and is usually designated as FY($t/t+1$).

1. *Financial Statement and Budget Report*, summarises economic background to the Budget, describes the medium-term financial strategy, summarises the tax proposals and gives all the key figures for inflation, money GDP, government revenues, expenditure borrowing and monetary policy for four years ahead, Budget day, year (t).
2. *Autumn Statement*, updates economic forecasts, including estimate of PSBR; gives summary figures and outcome of public expenditure survey etc., November, year ($t-1$).
3. *The Government's Expenditure Plans*, FY($t/t+1$)-FY($t+2/t+3$), the annual White Paper (year t), recording government's expenditure plans three years ahead, early year (t).
4. *Supply Estimates* (the Appropriation Bill), summarised in the Summary and Guide Memorandum by the Chief Secretary to the Treasury, both published on Budget Day, year (t).

Note The above publications are prepared by the Treasury and published by HM Stationery Office, London (HMSO).

Other documents

5. *Efficiency and Effectiveness in the Civil Service* (White Paper Cmnd 8616, 1982).
6. *Financial Management in Government Departments* (White Paper Cmnd 9058, 1983).
7. *Progress in Financial Management in Government Departments* (White Paper Cmnd 9297, 1984); includes a bibliography of department publications.
8. *The Next Ten Years: Public Expenditure and Taxation into the 1990s* (HM Treasury, Green Paper, Cmnd 9189, March 1984).

Note All the above are obtainable from HMSO.

Point of contact

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HM Treasury
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London SW1P 3AG

NOTE 1. The Budget (with capital B) refers to the Government's proposals for taxation.

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Any changes which may have taken place in the United States since 1st March 1986 are not reflected in this chapter.

A. INSTITUTIONAL STRUCTURE OF BUDGETARY DECISIONMAKING

1. Political and organisational structure of government

The United States of America is a federal republic consisting of 50 States. States have their own constitutions and within each State there are at least two additional levels of government, generally designated as counties and cities, towns or villages. The relationships between different levels of government are complex and varied (see section B for more information).

The Federal Government is composed of three branches: the legislative branch, the executive branch, and the judicial branch. Budgetary decisionmaking is shared primarily by the legislative and executive branches. The general structure of these two branches relative to budget formulation and execution is as follows.

The *legislative branch* includes the Congress, the General Accounting Office, and the Congressional Budget Office. The Congress consists of two Houses: the Senate and the House of Representatives. The major differences between the two are the number of members and the term of office. The Senate is composed of 100 members, two from each State, who are elected to serve for a term of six years. Direct Senate elections take place every two years, for one-third of all Senators. The House of Representatives comprises 435 members elected by the people for two-year terms, all terms running for the same period. The next election will be held in November 1986.

The General Accounting Office (GAO) provides an independent audit of Government agencies. The GAO is headed by the Comptroller General of the United States and is appointed by the President with the advice and consent of the Senate for a term of 15 years.

The Congressional Budget Office (CBO) was established in 1974. The head of CBO, the Director, is appointed by the Speaker of the House of Representatives and the President pro tempore of the Senate. The term of office of the Director expires every four years, on 3rd January.

The *executive branch* is headed by the President. The President is elected by the people for a four-year term. The next Presidential election will be in the fall of 1988.

The President's Cabinet is composed of the heads of the 13 executive departments. In addition, the President may accord Cabinet rank on other executive branch officials. Under this administration, the following officials have been accorded Cabinet rank: Director of OMB, Director of the CIA, U.S. Representative to the U.N., and the Chief of Staff of the President.

In addition to the Cabinet agencies, there are six large agencies. Also, there are approximately 70 small agencies, boards, and temporary commissions.

Depending on one's definition of "executive", the estimated number of "executives" with political appointments varies, but it probably approximates 2 000 - of whom all are appointed by the President or by his appointees.

2. Main budgetary organs

Within the executive branch of the central government, the primary responsibility for budget formulation rests with the Office of Management and Budget (OMB) in the Executive Office of the President. Primary responsibility for tax policy and tax estimates rests with the Secretary of the Treasury. Generally speaking, fiscal policy and economic forecasts are developed jointly by the Council of Economic Advisers (CEA), the Treasury, and OMB. The CEA is a three-member council appointed by the President to advise him on economic policy. The Council and its staff is part of the Executive Office of the President, as is OMB.

The OMB is headed by a Director and a Deputy Director who are appointed by the President, with the advice and consent of the Senate. The Office has just under 600 staff. An Executive Associate Director (EAD), a political appointee, is responsible for budget and legislation. Among the four groups that report to the EAD is the Budget Review Division (BRD), which is responsible for budget preparation and monitoring spending. This division is headed by the Assistant Director for Budget Review and a Deputy Assistant

Director, both of whom are career staff. There are close to 80 staff in BRD. BRD is organised into four branches: the Central Budget Management Branch, the Fiscal Analysis Branch, the Budget Preparation Branch, and the Resources Systems Branch.

The Congress is heavily involved in the process of budget preparation; its main budgetary organs are dealt with in sections A4 and D3 below.

3. Role of the President

The President makes the final decisions on the budget transmitted to the Congress. The President generally provides overall guidance on fiscal policy to the Cabinet. Agencies interpret this guidance into specific proposals, which are reviewed by OMB. In either case, the President approves the outcome and submits it to the Congress.

If agencies appeal a budget decision made by OMB, the Budget Review Board reviews the decision. This board is composed of the Chief of Staff to the President, the Secretary of the Treasury and the Director of OMB. Appeals not resolved at this level are forwarded to the President.

4. Role of the Legislature

The role of the U.S. legislature in formulating the budget is more active and often more independent than in most other OECD countries. In the following discussion, some basic concepts will be highlighted concerning the formal or legal concerns Congress has with respect to budget formulation. The basic concepts are obligations, authority to incur obligations (including appropriations), authorisations, and the concurrent budget resolutions. The process will be described in Section D below.

Obligations. The U.S. system is an obligations-based system as opposed to a cash-based system. An obligation is incurred when an order is placed, a contract is awarded, services are received, or when similar transactions take place during a given period that will require the expenditure of cash during the same or future period. The expenditure of cash is automatic after an obligation has been properly incurred.

Authority to incur obligations. Specifically, there are legal prohibitions against the obligation of funds before authority to incur the obligation has been granted. The universe of the authority to incur obligations is often referred to as budgetary resources.

The major types of budgetary resources are the following:

- New budget authority, provided through either appropriations, or authority to borrow or contract authority;
- Collections credited directly to the account. About 10 per cent of the authority to incur obligations results from collections from the

public that are credited directly to the accounts without being counted as budget authority. These revolving funds finance a continuing cycle of government owned business-type operations in which outlays generate receipts;

Unobligated balances (i.e. amounts of budgetary resources carried over from a previous fiscal period that have not yet been obligated). In 1987, about 24 per cent of the total outlays (i.e. disbursements net of cash collections credited directly to the account) were from unexpended, either obligated or unobligated, balances of budget authority enacted in previous years (see Section F2).

Authority to incur obligations is constrained by the law in terms of the purposes for which they can be obligated, the amount that can be used, and the time during which the amount is available. Generally, Treasury establishes appropriation or fund accounts for the various authorities. The Treasury accounts are consolidated for budget presentation purposes to approximately 1 100 budget accounts.

Authority to incur obligations vary in the length of time they are available for obligations. Some are available for incurring obligations only for a specified fiscal year or less, i.e. annual authority. Others are available for incurring obligations for a definite period in excess of one year, i.e. multi-year authority. The rest are available for an indefinite period, usually until the objectives have been accomplished, i.e. no-year authority. No-year availability pertains to most special and trust fund accounts as well as collections credited directly to the account.

Congressional procedures usually include an authorisation process and a separate annual appropriation process. In the *authorisation process*, organic legislation and appropriation authorisation legislation are considered and reported by the committees with legislative jurisdiction over the particular subject matter, usually referred to as substantive committees, and are considered by both Houses of Congress.

Organic or enabling legislation is legislation that creates an agency, establishes a programme, or grants authority to perform a function. With relatively rare exceptions, it does not provide any authority to spend money or incur obligations, although in the exceptional cases the amounts are large.

Appropriation authorisation legislation is legislation that authorises the appropriation of funds to carry out the organic legislation. Authorisation of appropriations may be included as part of the organic legislation or it may be separate. It does not normally provide authority to spend funds or to incur obligations.

Most programmes are authorised indefinitely or for a specified number of years. In other cases, the committees with legislative jurisdiction have required annual authorising legislation in an attempt to exercise legislative control over programmes. Currently most nuclear energy, space exploration, defense procurement, foreign

affairs, and some construction programmes require annual authorisation legislation.

An *appropriation* is a law that permits Federal agencies to incur obligations and to spend funds for specified purposes. An appropriation act typically follows an enactment of authorising legislation. However, in some instances, funds can be made available through authorisation legislation only. Examples include the Social Security and Federal Highway Trust Fund, funded from permanent or mandatory appropriations.

Appropriation bills are reviewed by 13 House and Senate Appropriation Subcommittees. These Subcommittees make spending-level recommendations to the House and Senate Appropriations Committees, which then make recommendations to the full House and Senate.

By precedent, appropriation bills originate in the House of Representatives and must pass through all House review stages before being sent to the Senate. However, occasionally the Senate originates appropriation bills before the House has initiated or completed action.

The Congress employs several types of appropriation acts, including the 13 annual (or regular) appropriations, supplementals or deficiency appropriations, continuing resolutions and permanent appropriations.

Similar to other budgetary resources, appropriations vary in the length of time they are available for obligation. Currently, most discretionary programmes (including the general operating cost of most agencies) receive annual appropriations. For many major construction and procurement programmes, especially in the Defense Department, the full cost of acquisition is appropriated before the project is initiated, even though completion (and spending) may take several years. Some grants-in-aid, i.e. outlays by the Federal Government to support State or local programmes, are appropriated a year in advance in order to facilitate State and local budget planning. In other cases, the Congress has voted permanent authority under which funds become available annually without further Congressional action. Interest on the public debt is an example of this case.

There is little correlation between the length of time for which a programme is authorised and the length of time for which appropriations for a programme are available. Moreover, there is not a one-to-one relationship between authorising legislation and appropriations for a programme. In other words, a programme may be financed by more than one appropriation or fund account or as one small part of an account. The variations simply reflect past practice and the jurisdictional disputes between the committees with jurisdiction over the authorising or appropriation legislation.

Concurrent budget resolution. Congressional action on the budget is guided by the annual adoption of a concurrent resolution on the budget. A concurrent resolution¹ is an instruction by the Congress to itself. The concurrent resolution is not presented to the

President for signature. Thus, it does not have the force of law and is not legally binding.

The Congressional Budget and Impoundment Control Acts of 1974 established, inter alia, Congressional procedures that enable the Congress to relate individual budget actions to the budget aggregates through concurrent budget resolutions. The Act was amended by the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings). The amendments streamline the Congressional budget process by providing for an annual budget resolution (two had been required by the 1974 Act) and by removing obstacles to the consideration of authorisation and appropriation bills. The annual budget resolution, which is scheduled to be adopted by 15th April, sets targets, for each of the next three fiscal years, for receipts, budget authority, outlays, the Federal deficit, total Federal borrowing, direct loan obligations, and loan guarantee commitments in total and by functional category. Budget Committees have jurisdiction over the resolution; they each report a budget resolution to their respective bodies who must endorse or amend it. Differences between the House and Senate versions of the resolutions are resolved in a conference committee made up of members of both Budget Committees. The House and Senate must then each approve the conference committee's work. The President does not sign the resolution.

After passage of the budget resolution, a point of order can be raised by any member to block consideration of bills that would cause a committee's targets, as set in the resolution, to be breached.

B. SOME FACTS AND FIGURES OF GOVERNMENT FINANCES

Compared to other OECD countries, general government expenditure has increased only marginally. General government net borrowing, however, shows a relatively large increase, mainly due to central government's budget deficit.

The relationships between the central government and State and local governments are complex and varied. For some of the largest categories of expenditure, such as social insurance and defense, the Federal Government makes payments directly to the public. However, in many instances, States and localities act as the agent of the Federal Government or share responsibilities, including costs. For example, States build and maintain highways, many of which are partly or largely financed by the Central Government. Social service programmes, such as medical care for the poor and assistance to low-income families, are generally administered by States and localities, which share a substantial portion of the costs.

The national Constitution guarantees autonomy to State governments and their local governmental subdivisions, though in practice a substantial admixture

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occurs. Each State has its own constitution, including its own Governor, legislature, judiciary, and civil service. Local governments are subsidiaries of State governments. States have the power to tax and borrow subject to State constitutions and laws, and local taxes and borrowings are locally determined but subject to State restrictions. States rely heavily on sales, income, and dedicated (especially motor vehicle) taxes; localities depend on property taxes and user charges. The Federal Government provides grants, loans and tax subsidies to State and local Governments to aid them in providing government services. States and localities are responsible for their own debt; most State constitutions place

restrictions on State borrowing and State constitutions and laws generally limit local public borrowing.

Approximately 45 per cent of all Federal outlays are for income transfers ("payments for individuals") in cash or in kind. This includes medical care, food assistance, and housing assistance, as well as direct cash benefits. Most needs-tested benefits are administered by States and financed by grants from the National Government and by the States (or States and localities). In such cases, national law determines the general nature of the programme and conditions for eligibility, with States setting up additional conditions and sometimes paying benefits entirely from their own funds for

Table 1
General Government Figures
In % GDP, 1985 (1) (2) (3)

From	To	Central Government	Local Authorities (4)	Social Security Funds	Private Sector	Total Expenditure
Central Government					Cons. (3) 9.0 Int. P. 3.6 Subs. 0.7 Soc. Sec. T. 1.5 O. Curr. T. 1.4 Investm. 0.4 Cap. T. (5) -0.2 O.G. Acc. -0.1 16.4	Cons. 9.0 Int. P. 3.6 Subs. 0.7 Soc. Sec. T. 1.7 O. Curr. T. 4.0 Investm. 0.4 Cap. T. (5) -0.2 -0.1 19.2
Local Authorities (4)					Cons. (3) 10.2 Int. P. 1.0 Subs. 0 Soc. Sec. T. 1.6 O. Curr. T. 0 Investm. 1.0 Cap. T. (5) -0.1 O.G. Acc. 0.1 13.9	Cons. 10.2 Int. P. 1.0 Subs. 0 Soc. Sec. T. 1.6 O. Curr. T. 0 Investm. 1.0 Cap. T. (5) -0.1 O.G. Acc. 0.1 13.9
Social Security Funds					Cons. (3) 0.2 Soc. Sec. T. 7.8 8.0	Cons. 0.2 Soc. Sec. T. 7.8 8.0
Private Sector		Tax. 12.2 (Ind. Tax.) (1.6) O. Rec. 2.1 14.3	Tax. 9.5 (Ind. Tax.) (7.0) O. Rec. 1.1 10.5	S.S.C. 6.8		General Government (3) (Consolidated) Cons. (3) 19.3 (Wages) (11.5) Int. P. 4.6 Subs. 0.7 Soc. Sec. T. 10.9 O. Curr. T. 1.4 Investm. 1.4 Cap. T. (5) -0.3 38.1
Total Revenues		Tax. 12.2 O. Rec. 2.3 14.5	Tax. 9.5 O. Rec. 3.7 13.2	S.S.C. 6.8 O. Rec. 0.2 7.1		Tax. 21.7 S.S.C. 6.8 O. Rec. 3.2 Cons. F.C. 1.4 33.1 Net Lending -4.9
Memorandum Items:						
(Cons. F.C.)		(0.3)	(1.1)			
(Net Lending)		(-4.4)	(0.4)		(-0.9)	

- For explanation and comments, see the Introduction to Part II and the remainder of this section.
- Items do not necessarily add to totals due to rounding off.
- Due to consolidation problems, total general government is not equal to the sum of subsectors.
- Including State Governments
- Capital transfers paid are netted against those received.

Source: OECD, *Annual National Accounts*.

people ineligible for Federal assistance. Less than 20 per cent of total payments for individuals is disbursed on the basis of a "needs" test; the remainder of these benefits are paid to eligible recipients - mainly elderly, sick, or unemployed - without regard to income.

Most of the non-needs-tested programmes are financed largely by earmarked social insurance taxes and by payments from the Treasury. Eligibility is mainly determined by age (for retirement), disability, or employment status; years of coverage and levels of payroll contributions usually are built into the formulas to determine benefit levels.

The Federal budget is composed of two major fund groups: federal funds and trust funds. Starting with the 1969 budget, the latter were included within the "unified budget," but their separate identity has been maintained. Trust funds are generally financed by

earmarked compulsory collections. The bulk of trust fund activities involve social insurance funds, but they also include dedicated highway and airport and airway taxes and the spending financed from those taxes.

New legislation enacted in 1985 removed two major social insurance trust funds (the old-age and survivors and the disability insurance funds) from the budget, but the budget documents continue to focus on total receipts and outlays including these funds. Prior to enactment of this legislation, there were certain other activities off-budget by law, but the new law removed their off-budget status, so the budget plus these two funds is essentially comprehensive of total Federal taxes and spending. However, it is politically easier to approve off-budget tax and spending increases, so the off-budget status creates a politically favoured position for such activities.

Table 2
General Government Funds
in % GNP, 1974 (1)(2)(3)

From	To	Central Government	Local Authorities (4)	Social Security Funds	Private Sector	Total Expenditure
Central Government			O.Curr.T. 3.1	Soc.Sec.T.: Curr. 0.3	Cons.(3) 8.3 Int.P. 1.7 Subs. 0.3 Soc.Sec.T. 1.5 O.Curr.T. 1.2 Investm. 0.3 Cap.T.(5) -0.2 O.G.Acc. -0.5 12.6	Cons. 8.3 Int.P. 1.7 Subs. 0.3 Soc.Sec.T. 1.8 O.Curr.T. 4.3 Investm. 0.3 Cap.T.(5) -0.2 -0.5 16.0
Local Authorities(4)					Cons.(3) 10.2 Int.P. 0.7 Subs. 0 Soc.Sec.T. 1.6 O.Curr.T. 0 Investm. 2.1 Cap.T.(5) -0.1 O.G.Acc. 0.1 14.6	Cons. 10.2 Int.P. 0.7 Subs. 0 Soc.Sec.T. 1.6 O.Curr.T. 0 Investm. 2.1 Cap.T.(5) -0.1 O.G.Acc. 0.1 14.6
Social Security Funds					Cons.(3) 0.2 Soc.Sec.T. 5.8 6.0	Cons. 0.2 Soc.Sec.T. 5.8 6.0
Private Sector	Tax. (Ind.Tax.) 13.6 O.Rec. 1.2 14.8	Tax. (Ind.Tax.) (1.5) O.Rec. 0.7 10.4	Tax. (Ind.Tax.) (7.5) O.Rec. 0.7 10.4	S.S.C. 6.0	General Government(3) (Consolidated)	
Total Revenues	Tax. 13.6 O.Rec. 1.4 15.0	Tax. 9.7 O.Rec. 3.8 13.5	Tax. 9.7 O.Rec. 3.8 13.5	S.S.C. 6.0 O.Rec. 0.3 6.3	Cons.(3) 18.5 (Wages) (12.0) Int.P. 2.4 Subs. 0.3 Soc.Sec.T. 8.9 O.Curr.T. 1.2 Investm. 2.4 Cap.T.(5) -0.3 O.G.Acc. -0.3 33.0	Tax. 23.3 S.S.C. 6.0 O.Rec. 1.9 Cons.F.C. 1.5 32.7 Net Lending -0.3
Memorandum Items:						
(Cons.F.C.)	(0.4)	(1.1)	(1.1)	(0.3)		
(Net Lending)	(-0.7)	(0)	(0)	(0.3)		

Notes: see table 1.

The budget process includes a credit control process (which is still fairly new) that seeks to control new direct Federal loans and Federal guarantees of non-Federal loans in an integrated manner. Federal lending activities frequently operate in a convoluted fashion; prior to the new legislation mentioned above, much Federal lending was off-budget, so the "credit budget" process operated in addition to, and overlapping with, the unified budget.

Over the past 70 years, the Federal Government established five financial intermediaries whose purpose is to direct funds to particular sectors of the economy. These entities are known as government-sponsored enterprises (GSEs), which make capital available for housing, agriculture and education. While most of the GSEs were created as government institutions, all have been privately owned since 1969 and are not included in either the unified budget or the credit budget.

The structure of federal expenditure by function is shown below.

Table 3. Federal Outlays by Function (1985)
Including off-budget social security
As percentage of total

National defence	26.7
International affairs	1.7
General science, space and technology	0.9
Energy	0.6
Natural resources and environment	1.4
Agriculture	2.7
Commerce and housing credit	0.4
Transportation	2.7
Community and regional development	0.8
Education, training, employment and social services	3.1
Health	3.5
Medicare	7.0
Income security	13.5
Social security	19.9
Veterans benefits and services	2.8
Administration of justice	0.7
General government	0.6
General purpose fiscal assistance (financial aid to State and Local Governments)	0.7
Net interest	13.7
Undistributed offsetting receipts	-3.5
Total	100.0

Source: Budget of the United States Government, 1987 (see Section 11)

C. STRATEGIC AIMS AND GLOBAL NORMS

Beginning 1981, the Administration developed a policy of sharply reduced taxes and deregulation of the economy, which was designed to increase output and productivity. In addition, special attention was paid to reduction of the expenditure level relative to GNP.

While decreasing the budget deficit was and is an Administration aim, the tax reduction was more easily attained than expenditure reductions, and the deficit expanded.

The Federal Government produces multi-year economic projections and budget estimates, but does not produce a multi-year economic plan. No legally mandated medium-targets have been set with respect to budgetary aggregates, except for the budget deficit. The Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman-Hollings) requires that spending be reduced in accord with a prescribed formula if projected deficits exceed the predetermined targets. The Act requires that the budget deficit will be reduced to zero by 1991.

The Federal deficit is defined to cover the Federal Government's deficit, including the social insurance funds. On-budget credit accommodation and Government enterprise capital formation are both included in calculating the deficit. The Gramm-Rudman-Hollings Act prescribes a multi-year path of the budget deficit in nominal terms. One common way of setting budget deficit targets is as percentages of gross national product. The 1985 actual level of 5.4 per cent GNP (2.6 per cent in 1981) is deemed to be too high, as mentioned above.

Table 4. Federal Deficits, 1980-1986
Fiscal years

	1980	1981	1982	1983	1984	1985	1986 (estimate)
In billions of Dollars	73.8	78.9	127.9	207.8	185.3	212.3	202.8
As a Per Cent of GNP	2.8	2.6	4.1	6.3	5.0	5.4	4.8

Source: Budget of the United States Government, 1987 (see Section 11)

D. FORMULATION OF THE BUDGET

1. Technical aspects of multi-year estimates

It is useful to distinguish between budgeting at the programme level and multi-year projections at a more aggregate level. At the programme level a wide range of different activities prevail, which makes it desirable that multi-year budgets be conducted at a disaggregate level, though not necessarily at the programme level (see section D3 regarding continuing authorities).

At the aggregate level, OMB prepares for the executive branch a detailed set of multi-year projections, for both federal expenditure, including off-budget funds, and revenues. These projections do not have the force of law and are not binding on the President nor on the

Congress. Their sole purpose is to provide the Administration, individual agencies, and the public with planning information on the specific programmatic limitations necessary to remain within aggregate fiscal targets in future years.

The multi-year projections now include not only "current policy" but also "current services" data. That is, one set of projections incorporates the estimated outcome based on the assumption of enactment of all Presidential recommendations, while the other estimates the ongoing momentum of the budget under current law in the absence of policy changes. The difference between the two sets of projections measures the costs of proposed policy initiatives, or the budgetary savings they would effect.

The multi-year (current policy) projections are in current prices and are based on macroeconomic assumptions that are incorporated in the annual Economic Report of the President. This document is produced simultaneously with the President's budget; both near-term economic estimates and longer-term projections are projected through a joint process involving Budget/Treasury/Council of Economic Advisers career staff and political officials. The 1987 projections are consistent with the five-year deficit targets, established by the Gramm-Rudman-Hollings Act. Although in theory the current services projections should differ from the current policy projections, the same assumptions are used for both so that policy differences can be highlighted.

The multi-year projections, linked to the current year and the budget year, cover 4 years beyond the budget year. They cover the same spending and receipts

aggregates as the annual budget (i.e. around 1100 spending accounts and several hundred receipt accounts), and are produced simultaneously so that any changes in the base are incorporated in the out-year estimates. The budget estimates are usually updated by OMB at least twice a year. Each new annual budget starts fresh, but provides tables for the most recent actual year data, bridging from the estimates of two years previously to show the major changes. The budget estimates usually include allowances for pay increases, for contingencies, and sometimes for other purposes. The size and composition of such allowances vary depending on policy judgements.

In addition to the Presidential budget, the Congressional Budget Office produces estimates based upon the President's budget policies but adjusted to inflation and other economic assumptions differences that the CBO deems to be more realistic. The CBO also projects current services based on their own economic assumptions. At the time the Budget Committees and the Congress as a whole take action on the budget resolutions, they may choose to use the assumptions and estimates, or some compromise figures. Regardless of which economic assumptions are used, the Congress appropriates in current dollar terms and these totals are binding.

2. Calendar of main points of decision-making and activities

The fiscal year begins on 1st October (year t-1) and ends on 30th September of the following year (year t) and is usually indicated as FY(t).

Months before start of FY(t)	Main events and activities
(Year t-2)	
Approx. 18 (Spring)	OMB prepares budgetary projections for FY(t) to FY(t+4), evaluates broad agency programmes
16 (June)	President establishes general policy directions for FY(t) and FY(t+1) to FY(t+4).
13-10 (September-December)	Executive branch develops the President's budget.
(Year t-1)	
9 (1st Monday after 3rd January)	Transmittal of President's budget to Congress.
8 (15th February)	CBO submits report to Budget Committees.
8 (25th February)	Each Committee reports its views and budget estimates to the House and Senate Budget Committees.
6 (1st April)	Senate Budget Committee reports concurrent resolution on the budget.
6 (15th April)	Congress completes action on concurrent budget resolution.
5 (15th May)	Annual appropriation bills may be considered in the House.
4 (10th June)	House Appropriations Committee reports last annual appropriation bill.
4 (15th June)	Congress completes action on reconciliation legislation.
4 (30th June)	House completes action on annual appropriation bills.
0 (1st October)	Fiscal year (t) starts.

3. The annual budget cycle

The U.S. budget preparation process has two main phases, the executive formulation and transmittal, and congressional action.

Executive Formulation and Transmittal

There is no mandatory or required procedure for developing the President's budget proposals. There is no formal consultation with the Congress or outside interest groups. The executive budget process has evolved reflecting both the nature of events and the style of each administration. In general, however, the budget decision-making cycle has begun in the spring, when broad agency programmes have been evaluated by OMB, policy issues identified, and budgetary projections made. These budgetary projections, including projections of estimated receipts prepared by the Department of the Treasury, have often been presented to the President for his consideration, and at this time other major issues are discussed. Additionally, the President receives periodic projections of the economic outlook that are prepared jointly by the Council of Economic Advisers, OMB, and the Treasury.

Following a review of these projections, the President establishes general budget and fiscal policy guidelines, which are transmitted to the agencies to help them plan their 5-year budgets.

Throughout the fall and early winter, the executive branch is involved in the development of the President's budget. The primary phase of the budget process involves the formulation and preparation of the President's budget for transmittal to the Congress. Budget decisions are made by the President after detailed reviews of agency budget requests. These determinations are then provided to the agencies, but may be revised as a result of later Presidential decisions. Fiscal policy issues – related to total budget outlays and receipts – are reexamined. The effects of budget decisions on budget authority and outlays in the years that follow are also considered and are explicitly taken into account, consistent with the multi-year budget planning system.

Once the President's budget is transmitted, the OMB begins the process of tracking (scorekeeping) congressional actions taken at each step of the congressional appropriations process, the congressional budget resolution process, and the reconciliation process.

Congressional Action

The congressional budget process is complex and, in part, fragmented. The Congress does not enact a comprehensive budget in detail. However, it does establish overall fiscal policy guidelines through concurrent budget resolutions. Enforcement of them requires enactment of a series of separate tax, authorisation, and appropriation bills, which may not always conform with the original objectives stated in the resolution.

Congressional review of the budget begins when the President transmits his budget estimates to the Congress (the first Monday after 3rd January). Under the procedures established by the Congressional Budget Act of 1974, the Congress is supposed to consider budget totals before completing action on individual appropriations. It does so by adopting a concurrent budget resolution, which is scheduled for 15th April.

The resolution, as reported by the Budget Committees and finally adopted, contains reconciliation instructions to the substantive committees that give a dollar target for savings that must be achieved. Although these targets are based on programmatic assumptions, only the dollar figure is binding. Substantive committees are free to achieve the savings through any changes in direct spending in their jurisdiction. The resolution will also contain a date by which the substantive committees are required to report, to their Budget Committee, legislation achieving savings. The Budget Committees package the legislation from the substantive committees and send it to the floor of their respective bodies as a reconciliation bill. The bill must then be passed by each House, have differences resolved in a conference committee, and be signed by the President. Although the Budget Act now states that action on a reconciliation bill should be completed by 15th June, bills are actually passed later in the year.

The congressional appropriations process is separate from and at times simultaneous with congressional consideration of the budget resolution.

Congressional review of the 13 annual appropriations follows a formal process. Generally, between January and March, the House and Senate Appropriations Committees hold hearings with the Director of OMB, the Secretary of the Treasury, and the Chairman of the Council of Economic Advisers. Following this, the House and Senate Subcommittees hold hearings and review agency justifications, whereupon the House Appropriations Committee drafts appropriation bills and reports. The Ways and Means Committee reviews proposed revenue measures. Individual agencies are frequently called upon to testify on behalf of their part of the President's budget. In preparing new bids, budget cutbacks or in examining the President's proposals, these committees are supported by executive assistance (OMB, spending agencies) and by CBO. The CBO may be asked to provide technical analyses and alternatives to proposals made by others, including the President. Agencies may be asked to provide estimates and views on alternatives proposed by the committees. Each committee then recommends the action to be taken by the House of Representatives.

When the appropriation and tax bills are approved by the House, they are forwarded to the Senate, where a similar review process is followed. In case of disagreement between the two Houses of the Congress, a conference committee (consisting of Members of both bodies) meets to resolve the differences. The report of the conference committee is returned to both Houses for

approval. When the bill is agreed to by both the House and the Senate, it is ready to be transmitted to the President as an enrolled bill, for his approval or veto.

If appropriation action has not been completed by 30th September, which is the close of the preceding fiscal year, Congress passes a continuing resolution. This provides interim budget authority for programmes to continue at a specified rate pending enactment of regular appropriations. In recent years, continuing resolutions have been used in lieu of regular bills for the entire fiscal year.

E. EFFICIENCY AND EFFECTIVENESS REVIEWS

Policy analysis occurs at all levels within the executive branch. Operating agencies continually evaluate the effectiveness and efficiency of existing programmes. This analysis is an integral part of the agency budget justification that is submitted to OMB. In addition, OMB budget examiners conduct independent analyses that form the basis of their recommendations to the Budget Director and other policy-level officials. Efforts have been made to assure that programmes with basic similarities are treated equitably. An example is across-the-board policies regarding cost-of-living adjustments. In addition to policy analysis, management practices have received increased emphasis in the budget process during recent years. Specific management issues are discussed between OMB and major agencies, and the resulting decisions incorporated into the President's budget. A description of the results is published in the Management Report that is transmitted to the Congress to accompany the budget documents.

F. IMPLEMENTATION OF THE BUDGET

1. Major instruments of in-year control

Once approved, the President's budget, as modified by the Congress, becomes the basis for the financial plan for the operations of each agency during the fiscal year. Under the law, most budget authority and other budgetary resources in each account are made available to the agencies of the executive branch through an apportionment system. The Director of OMB apportions (distributes) appropriations and other budgetary resources to each agency by time periods or by activities, to ensure the effective use of available resources and to minimise the need for additional appropriations.

In the apportionment process, OMB may establish reserves under certain circumstances to provide for contingencies, to effect savings made possible by changes in requirements or greater efficiency of operations, or otherwise withhold authority to obligate funds.

The Impoundment Control Act of 1974 further defines the process under which OMB may use the apportionment process. The act provides that the executive branch, in regulating the rate of spending, must report to the Congress any deferral of budget authority; that is, any effort through administrative action to postpone spending which has been authorised by law. OMB can also propose rescission (i.e. cancelling) of previously enacted budget authority, before it would otherwise lapse.

Once funds are apportioned by OMB, the responsibility for further control rests with the receiving agency. Each agency is required to maintain a system of internal controls, which assures that the funds are used properly, not only in terms of avoiding outright fraud, but in terms of meeting legislative intent, which is often non-binding.

Detailed reports on the use of funds are prepared monthly by the agency for the Department of the Treasury and the Office of Management and Budget. The reports to OMB are called budget execution reports. The reports are by account, and are usually on a monthly basis. A copy of the report covering the last month in a quarter is sent to the House Appropriations Committee. The Treasury Department has central responsibility for revenue collection and disbursement. The Department publishes monthly and yearly reports on the financial condition of the Federal Government.

Despite the apportionment process, changes in laws, economic conditions, or other factors may indicate the need for additional appropriations during the year. In such cases, supplemental budget requests may be sent to the Congress.

A comprehensive report on changes to the current budget is required each 10th April and 15th July. It includes changes due to economic conditions, technical factors, new Presidential proposals, and legislation passed by the Congress and signed by the President.

2. Managerial discretion

A general law prohibits agencies from transferring funds between appropriations without specific statutory authority to do so. In some instances, agency heads are provided authority – with or without OMB approval – to transfer funds in substantive legislation. Sometimes authority to transfer funds may be found in an appropriation act. Such authority usually contains a limit on the amount that may be transferred.

All committed and uncommitted balances can be carried forward, except unobligated balances of annual funds.

G. CURRENT REFORMS

Several budget process reforms are being proposed, many a reflection of budget processes in the private sector. These include a multi-year appropriation process, the use of accrual accounting and the publishing of consolidated financial statements. The President is also encouraging enactment of a line-item veto which allows him to veto only part of an appropriation bill, and changing the budget resolution to a joint resolution subject to the President's signature. The current administration is considering the use of a capital budget.

H. FURTHER INFORMATION

Documents related to annual budget

The fiscal year begins on 1st October (year t-1) and ends on 30th September of the following year (year t) and is usually designated as FY(t).

1. *The Budget of the United States Government*, including the Budget Message of the President, January, year (t-1).
2. *The Budget Appendix*, details by budget account, January, year (t-1).
3. *The Budget in Brief*, a 100-page summary with charts and tables, January, year (t-1).
4. *Special Analyses*, contains current services estimates, data on credit programmes, grants to local governments, personnel levels and other special topics, January, year (t-1).
5. *Major Themes and Additional Details* (some years), provides justification for major budget proposals, January, year (t-1).
6. *Historical Tables*, published as a single volume for the first time in 1985, January, year (t-1).
7. *Economic Report of the President*, annual report on short-term and medium-term economic forecast and economic policy published by the Council of Economic Advisors, January, year (t-1).
8. *Circular No. A-11*, annual instructions to agencies on preparing their budget submissions, June/July, year (t-1).
9. *Mid-Session Review*, revised estimates in summary form, mid-July, year (t).
10. *The Joint Statement of the Secretary of the Treasury and the Director of the Office of Management and Budget on Budget Results for Fiscal Year 1987*, about the implementation of the Budget, end of FY(t).

11. *The Annual Report of the United States Government for the fiscal year ended September 30*, issued by the Treasury in November/December, year (t+1).

Main CBO documents

12. *The Economic and Budget Outlook: Fiscal Years 1987 to 1991 (CBO Annual Report, Part I)*. The report is published annually, in either January or February, discusses economic assumptions and the current policy baseline, February 1986.
13. *An Analysis of the President's Budgetary Proposals for Fiscal Year 1987*. The report is published annually, shortly after the release of the President's budget. It provides a description of the budget and a re-estimate of the revenue and spending that is proposed. The report explains the differences between its re-estimate and the President's budget - usually in terms of economic and technical assumptions. This report has been produced since 1978.
14. *Reducing the Deficit: Spending and Revenue Options (Annual Report, Part II)*. Part II of the annual report provides background information for each major spending area of the budget and for reserves, March, 1986.
(Note: Titles for Parts I and II of the annual report are not the same every year.)
15. *The Economic and Budget Outlook: An Update*. Published in August of each year, this report provides new economic assumptions and re-estimates of the current policy baseline. It explains why the baseline has changed since the previous report, categorising changes as due to new economic assumptions, legislation or other policy changes, or new technical assumptions. This report has been produced with various titles since 1980.

Other documents

16. *Circular No. A-34*, permanent instructions to agencies on control of funds.
17. *Management of the United States Government* (annual description of efforts to improve the management of Federal agencies), January, year t-1.

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NOTE

1. A concurrent resolution is different from a joint resolution. A joint resolution has to be presented to the President. If the President approves the legislation, it is enacted into law. If the President vetoes the legislation, the Congress, by a two-thirds vote of each House, can override the veto. If the Congress overrides the President's veto, it is enacted into law.

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Public expenditure control has become a central element of economic policy in many countries. This report analyses budget practices and some recent innovations from the point of view of senior public servants in the central budget offices of nineteen OECD Member countries. It also summarises the institutional framework and procedures governing budgeting in each of these countries.